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BUSINESSKOREA

JUNE 2013 / VOL. 31 No. 341 www.businesskorea.net

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Lee Kyung-jae
KCC chairman

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The special edition to celebrate the 30th anniversary of BusinessKorea

12,000 won
ISSN 1016-5304

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Korea enjoyed rapid economic growth in the 1980s, with particularly astonishing growth from 1986 to 1988. At that time, the figure topped 10%, with inflation remaining below 3%. An annual trade surplus of over US$10 billion was enough to imbue people with pride.

Focus

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PUBLISHED BY : BusinessKorea Co., Ltd. : 301 Samdo Building,
12-1 Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea 150-010
Mailing Add.: 301 Samdo Building,
12-1 Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea 150-010
Tel: (02)578-3220 Fax: (02)578-3224
Government Registration Number: RA-2743 Dated March 18, 1983.
Printed by Hwashin Printing Tel: (02)2277-0624

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To Our Readers

Expectations for President Park Geun-hye's State Visit to China

Vague expectations and ill-founded optimistic views are growing prior to President Park Geun-hye's visit to China, which begins June 27, and summit talks between her and Chinese President Xi Jinping. A flood of demands are gushing from the political, economic, military and cultural sides, with anticipation that the visit will be an opportunity to re-establish bilateral relations.

However, what matters most is the big picture regarding peace in Northeast Asia, stability on the Korean peninsula, and the reunification of the two Koreas with China, which is now preparing new international and regional strategies in order to better meet its standing as a superpower.

To this end, President Park must overcome the so-called Asia Paradox, which can be defined as an imbalance between security and economic cooperation among Asian nations. Closer cooperation in Northeast Asia and a peaceful Korean peninsula are only possible when regional economic and security issues are handled through close-knit collaboration. China cannot give up on the buffer zone of North Korea, while the South cannot neglect the importance of the Korea-US alliance. Nevertheless, Korea has to remind China of the fact that it is ultimately its best partner in regards to economic and security issues related to the Korean peninsula and overall regional peace.

With regards to North Korean special envoy Choi Ryong-hae's visit to China last month, the Global Times, one of China's official news media said, "No matter what the purpose of the trip is, Beijing has to put pressure on Pyeongyang so that it can control its own actions." The report clearly shows that China is beginning to distance itself from the North, along with evidence that Chinese netizens are becoming increasingly unfriendly toward the oppressive regime.

It is said that the slogan of President Park's state visit is 'Journey of Trust'. This reveals that she is willing to build further trust with China in order to deal with inter-Korean issues. To do so, the Korean President will have to give a better impression than ever to the Chinese public and create a friendlier atmosphere between the two countries. This is why some people are claiming that the state visit should attempt to begin a Korean Wave in the political arena.

The four-day trip comes at a time when relations between China and North Korea are seeing significant change in the wake of the latter's nuclear threats and as the US and China seriously mull over ways to better coexist. This means wider diplomatic room for Korea, which is a key partner for both the US and China. It is now up to President Park to effectively leverage this beneficial situation.

Park Jung-hwan,
Publisher & Editor-in-Chief


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"BERNANKE SHOCK"

Korean Government Paying Sharp Attention to Fed's Exit Strategy

A foreign exchange dealer is seen watching monitors on June 20 in the dealing room of Korea Exchange Bank located in Myeong-dong, Seoul, with the stock market plummeting and the won-dollar exchange rate soaring to a year high.

Federal Reserve Chairman Ben Bernanke mentioned the monetary policy for exit strategy in the end. Korean economic experts expressed their concerns over possible short-term volatility in the financial market while predicting that the recovery of the US economy would act in favor of the export-driven Korean economy down the road. At the same time, some predicted that the global economy could fall into a double dip if the exit strategy went awry due to a failure of communication among market participants, and poor policy timing, etc. It was warned that the interest rate shock could also affect marginal firms and indebted households.

Worse-case Scenario: Double Dip

As of now, the consensus is that the exit strategy has been derived from the predominance of positive prospects for the US economy. The demand side's picking up to result in increased imports can have a positive effect on Korea's export to the US market. This can improve the current account balance along with a rise in the exchange rate, which, in turn, can make the Korean economy look more attractive in the second half of this year.

Still, some people are raising concerns that the upward adjustment of the interest rate could exacerbate the problem of household liabilities here. "The rate increase is likely to affect the real economy, households with debt in particular, to cause a decline in spending," said Jeong Yeong-shik, an analyst at the Samsung Economic Research Institute. He continued, "Furthermore, it will bring about higher financing costs on the part

of enterprises and aggravate the liquidity problem in the shipbuilding, shipping, and construction sectors, etc."

A faster-than-expected pace of tight monetary policy could give rise to simultaneous interest rate hikes around the world and a double dip. This is why local experts are calling upon the government to strengthen its monitoring of the capital market. "The authorities should watch the capital market more closely rather than focusing on regulations for the soundness of the foreign exchange market," Korea Development Institute researcher Kim Seong-tae explained, adding, "The government will also have to come up with contingency plans in order to provide against sudden capital outflow."

Financial Companies Expecting Financial Crunch to Be Eased

In the meantime, financial companies are busy calculating pluses and minuses on their part. Both banks and insurers are having trouble these days due to the low interest rate and the drop in profits resulting from it. Significant attention is being paid to whether the Fed's exit strategy will provide breathing space.

As far as banks are concerned, the lending rate is likely to go up faster than the deposit rate and they will be able to enjoy some profits in the short-term. However, the risks borne by households and corporations could increase at the same time, which means things have to be watched at least for some time. Insurers, meanwhile, are drawing a rosy picture in that their main investment targets include treasury bonds.

Banks Face Risks of Bad Loans

Most local banks raised their conforming loan rates by 0.4 percentage points recently. The move can be a boon to their profits, yet the problem is that the loans have the possibility of becoming insolvent.

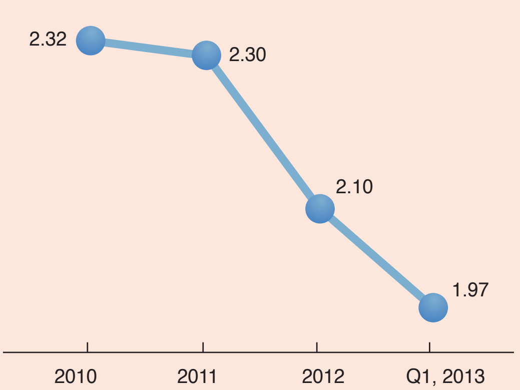
"When the interest rate goes up, companies and households have to pay more interest and this could affect the fiscal soundness of banking institutions," said Dr. Im Jin at the Korea Institute of Finance (KIF), advising financial firms to not simply focus on the loan-deposit spread. Director Park Seong-wook at the KIF's Macroeconomic & International Finance Division echoed this, saying, "Probably, banks with bonds will face capital losses and tighter foreign currency conditions, making risk management more difficult than it is now." It appears that what is crucial is the pace of the interest rate change.

Insurers Need to Keep Low Interest Rate Stance

Local life insurance firms' operating profit rate fell to 3.24% late last year, no less than 0.84 percentage points from a year earlier. The drop was caused by the earnings rate of the asset management division that dipped below 5%. In this vein, the exit strategy can be a favorable factor as it means larger room for asset management.

Nevertheless, some insurers could turn various assets into available-for-sale (AFS) securities subject to the market price valuation method and the interest rate rise could decrease the size of their assets. "The bond rate increase is likely to reduce their reverse margin, but some insurers who convert their securities into AFS will face difficulties," said Dr. Kim Hae-shik of the Korea Insurance Research Institute. He went on, "With the movement of the interest rate having yet to decide on its direction, they need to maintain the low interest stance at least for a while and a hasty pursuit of larger investment profits will entail high risks."

Net Interest Margin of Banks (unit: %)



Source: Financial Statistics Information System of the Financial Supervisory Service

Government Working on Financial Market Risk Index for Scenario-specific Response

The government is closely watching the potential aftermath of the policy. "We'll carry out prepared countermeasures while monitoring the market response," said Choi Hee-nam, who is heading the International Finance Policy Bureau of the Ministry of Strategy and Finance.

Specifically, the ministry will draw up its own financial market risk index based on the exchange rate, treasury bond rate, credit default swap (CDS) premium, foreign currency outflow, and so on, while addressing the situation with phase-by-phase plans. It has already prepared action plans to deal with situations in which the real economy recovers amid foreign currency outflow, and capital outflow if the real economy fails to gain speed, etc. It is also planning to expand currency swaps with the central banks of major economies and shore up the multinational financial safety net, such as the Chiang Mai Initiative.

The authorities believe the current situation is unlikely to result in the perfect storm that was seen during the global financial crisis of 2008. "The implication of the end of the quantitative easing policy shows that the US economy is on a recovery track," the director explained, adding, "Korea, with its decent economic financials, will take a smaller hit than those countries that are highly dependent on raw material exports or those that have huge current account deficits, that is, a worldwide liquidity crisis is not likely at this time, unlike five years ago." BK

NORTH KOREA

Proposing Senior-level Meeting to United States

The North made an Attempt to Mend Fences with China while the US Responded with a Wait-and-See Attitude

North Korea has suddenly made conciliatory gestures since mid May, after escalating tension on the Korean peninsula by declaring the nullification of the armistice agreement, posing threats of nuclear attacks against South Korea and the United States, and shutting down the Kaesong Industrial Complex.

For example, it allowed Japanese Cabinet Secretariat Advisor Isao Iijima's visit on May 14 and sent its special envoy Choi Ryong-hae to Beijing eight days later. It proposed talks between the authorities of the two Koreas on June 6 and a high-level meeting between the US and the North on June 16 through the National Defense Commission.

"The meeting will be an opportunity to discuss various issues such as the recent military tension, conversion of the armistice regime into a peace regime and the establishment of a nuclear-free world that the US advocates," said the spokesperson of the commission, adding, "The US can fix the date as well as the venue at its convenience."

However, the Obama administration brushed aside the suggestion on June 17 (local time), claiming that the North must fulfill denuclearization measures before any dialogue. "The international community's stance that North Korea has to stop its nuclear programs in a verifiable manner has not changed," said Department of State spokesperson Jen Psaki, adding, "The North will have to come up with detailed denuclearization measures if it wants to win the trust of the international community." She also emphasized that the US would have a bilateral meeting only in the framework of six-party talks.

Until now, the South Korean government, Washington and Beijing have not recognized the status of the North as a nuclear power. At the same time, they have stressed that North Korea give up on its nuclear weapons before any talks can be held. US President Barack Obama and his Chinese counterpart Xi Jinping recently reconfirmed their agreement not to regard the North as a nuclear weapons country, putting mounting pressure on North Korea.

Kim Jong-eun, First Secretary of the Workers' Party of the Democratic People's Republic of Korea, visited a local kindergarten on June 16 to watch a children's performance.

Confusion Tactics to Weaken Cooperation among Seoul, Washington and Beijing

The offer for the dialogue is considered a tactic to undermine three-way cooperation among the US, South Korea and China. "It seems even more so in that the suggestion was made just 10 days ahead of the summit between Korea and China," said Korea University professor Yoo Ho-yeol.

The North had proposed inter-Korean talks on June 6, one day prior to the summit between Beijing and Washington, but halted negotiations abruptly and unilaterally before holding out its hand to the US instead immediately before President Park Geun-hye's visit to the US and meeting with the President of the People's Republic of China.

President Barack Obama, on his way to Northern Ireland to participate in the G8 conference, made a phone call to her and talked about how they could work together for the denuclearization of North Korea. The Blue House said that the two reaffirmed their stance of allowing no dialogue before the North shows its will with specific actions.

Pyeongyang Appears Not So Desperate for Talks in Reality

According to foreign affairs experts, the North's conciliatory messages have the purpose of avoiding international restrictions and diplomatic isolation. "The diplomatic sanctions imposed by the US must be lifted right away along with all threats, intimidation and provocation," it said the same day. A diplomatic source in Seoul commented, "There is a possibility that China told Pyeongyang to propose the talks on condition of re-opening accounts of the Foreign Trade Bank of the DPRK." As a matter of fact, a number of high-ranking Chinese officials, including the President, are said to have emphasized the importance of peaceful dialogue during

the special envoy's visit last month.

"North Korea is disgruntled at China's participation in the three-party collaboration," said Dongkuk University professor Ko Yoo-hwan, adding, "It seems that Pyeongyang is expecting some favorable news from China after meeting its request." North Korea mentioned the possibility of such dialogue during the special envoy Choi's visit to China and made an offer for talks immediately after his return, which is seen as a move to get on the good side of the Chinese government. Furthermore, the North has nothing to lose even if its proposal is turned down because it can enjoy at least some propaganda effect in persuading third-world countries to stand against the international sanctions.

North Sticking to Its Status as Nuclear Power

Nevertheless, the North is overtly trying to have its status recognized as a nuclear power. "Our nuclear power status, whether the international community recognizes it or not, will be firmly maintained until all of the external nuclear threats to us go away and denuclearization on the Korean peninsula is achieved," said the commission on June 17, claiming, "Our nuclear weapons are a self-defensive and strategic choice for denuclearization on the peninsula." Under such circumstances, the US is likely to keep watching the development of the event for some time while responding negatively to suggestions from the North.

However, it is also possible that the US could head to the negotiating table on certain conditions as North Korea has shown some signs of a positive change in attitude. "It seems that the North is trying to trick Washington into bilateral talks by mentioning the issue of a nuclear-free world along with the names of its former leaders," said Jang Yong-seok, senior researcher at the Institute for Peace and Unification Studies of Seoul National University, adding, "The possibility cannot be ruled out that the US would become positive regarding two-way dialogue in an attempt to restart six-party talks." BK

CHINA GIVES CONSENT TO ADDITIONAL SANCTIONS AGAINST NORTH KOREA

The Chinese government has agreed to additional international sanctions on North Korea. This is considered a significant change in stance in that China previously sheltered the North until recently whenever sanctions were mentioned regarding its nuclear weapons tests.

During his recent summit talks with US President Barack Obama, Chinese President Xi Jinping remarked that he would deter Kim Jong-un from developing nuclear weapons. Under such circumstances, keen attention is being paid to what will become of bilateral relations between North Korea and China.

"There has been some meaningful breakthrough on the part of China regarding the issue of sanctions against North Korea," said an anonymous UN source on June 23 (local time), adding, "Recently, two matters that required China's approval have been resolved through its consent." These two issues were an increase in personnel of the expert group in the UN Security Council Sanctions against North Korea and the disclosure of the group's report regarding extra sanctions against the North.

The committee is joined by 15 members of the UN Security Council, including the United States, China, Russia, Great Britain and France. The expert group features seven members from the five permanent members as well as Korea and Japan.

The source continued, "This implies that China is taking the North Korea nuclear issue very seriously and is going to take a more aggressive stance than before in regards to imposing restrictions on North Korea."

The Chinese government also gave its consent on the disclosure of the sanctions report. "The committee recently discussed the issue of disclosing the report, which was submitted to the committee by the expert group, to UN member states and China has agreed, meaning the report can be made public this week," he explained, adding, "China refused the disclosure in the past, and therefore the change in the attitude is seen as being quite meaningful diplomatically."

Back in May 2011, the UN Security Council discussed the adoption of an annual report drawn up by the expert group, with China against the plan. At that time, China even violated the silence procedure, which means no opposition for a certain period of time is interpreted as agreement when the Security Council makes a decision.

INTERVIEW WITH KCC CHAIRMAN

Regulations to Remain Minimized for "Public Benefit and Convenience"

The deregulation is believed to facilitate convergence between telecommunications and broadcasting as well as the technological development of the ICT industry

Lee Kyung-jae, Chairman of the Korea Communications Commission

Lee Kyung-jae, the first chairman of the Korea Communications Commission (KCC) under the Park Geun-hye government, began his interview with Business Korea by saying, "Broadcasting, as an opinion maker, is one of the fields exerting the greatest influence on the general public amid the current political and ideological conflicts in the country." Under such circumstances, the leadership of the organization are recommended to take office by the ruling and opposition parties in the interest of impartiality and fairness. The Chairman, however, stressed that the continuation of the strike in the public broadcasting stations, led by left-wing labor unions, could appear to be a suppression of the press on the part of foreigners, adding that it is a sort of side effect of the country's rapid democratization and industrialization.

First of all, congratulations on your appointment as the first KCC chairman in the incumbent government. What are your initial impressions?

I served the Bureau of Public Information, the predecessor of the KCC, and actively engaged in proceeded with legislative activities in this field, which has made me familiar with this job. I would like to express my gratitude to all those who helped me get this job and at the same time mention that I am well aware of the weight of my responsibility.

Looking back, I remember that I declared 'the new media era of multiple channels and multiple media has started' at Korea's first cable TV station opening ceremony back in 1995, as vice minister of the Bureau. I harboured some suspicion in fact back then, but the declaration has turned into reality and given rise to drastic changes in our everyday lives.

As of now, we have more than 270 TV channels, with the number of cable TV, satellite TV and IPTV subscribers surpassing 15 million, four million and seven million, respectively, which means over 90% of Korean people are watching terrestrial broadcasting on a pay-per-view basis. More recently, the dish convergence solution (DCS), has been made available so that satellite TV programs can be enjoyed via the Internet without a dish, and more than 30 million people watch programs on their smartphones. The number of subscribers was rather slow during the early stage of cable TV, due in part to the Asian financial crisis, but all of the staff in the Bureau, including myself, worked hard to successfully popularize the media, something I am very proud of even after all these long years.

My organization and I will thoroughly provide against the era of smart technology, so that the public can enjoy better

broadcasting services with greater convenience.

Some people are saying that you were selected because you are close to the President. What do you have to say in response to this?

It is true that I have lent some support to her campaign, but it is a stretch to say that I was appointed because of that reason.

I started my career as a journalist at the DongA Daily before working for the Korea Broadcast Advertising Corporation (KOBACO). I then served as the spokesperson for the Presidential Office and vice minister of the Bureau of Public Information, as well as served the National Assembly as a four-time lawmaker and a member of its Standing Committee on Broadcasting and Telecommunications. In short, I have been engaged in this industry throughout my career.

As deputy head of the Bureau, I introduced cable TV so that Korea could take the lead in the fast-changing global media environment. As a legislator, I participated in many important policy discussions in the standing committee, meaning that my legislative and administrative experiences can be of help in dealing with complicated problems and policy issues, thus helping to accelerate the advent of new paradigms in the industry. I believe that such efforts have resulted in me being given this coveted position.

When I was young, I criticized the government for its wrongdoings and lost my job as a result. My books were banned from sales for the same reason. As such, I am well aware of the importance of impartial and non-partisan broadcasting and I guess that the people sympathized with me in this aspect, too.

The KCC's scope of duties has been adjusted slightly following the reorganization of the government. Please give a brief explanation regarding it.

The Park Geun-hye government has come up with the concept of creative economy as its paradigm for future economic growth. The President, right after her election, reshaped the administrative structure and set up a new entity in order to take charge of the pursuit of this.

As far as I understand, creative economy is about increasing economic added value and creating jobs by means of people's imagination and creativity in order to cope with the lack of natural resources. The broadcasting and telecommunications industry, along with the information technology sector, are one of the key fields for the realization of this, and an area in which every single second matters. We all remember how Nokia, which had been the world's largest mobile phone company, collapsed after failing to keep up to speed.

Likewise, Korea succeeded in developing its own IPTV technology in the early 2000s, not much later than advanced economies, but then spent four years putting the technology to commercial use, whereas the others began commercial services right away.

This is why the current government established the Ministry of Science, ICT and Future Planning and gave it responsibility for the industrial and technical sides of the broadcasting and telecom industry. Matters related to freedom of speech and impartiality of broadcasting will be handled by the KCC in this framework down the road.

I am sure that the government made the right decision. It will help the country cling to the core value of democracy and cope with the trend of convergence between broadcasting and telecommunications, allowing Korea's ICT industry to grow as a future growth driver.

During the course of the structural overhaul, the ruling and the opposition parties had a severe clash of opinions, delaying the official launch of the new government by roughly 50 days.

Political and social systems have their own distinct characteristics by country, though they are quite similar to each other in some aspects. Korea's administrative entity in charge of broadcasting has shown some uniqueness throughout its history, too.

Korea went through a lot of political and ideological conflicts in its industrialization and democratization process, and broadcasting has played a crucial role during the course as a leading opinion maker. Discussions have been repeated over and over in order to guarantee the political neutrality and impartiality of the broadcasting sector, the results of which include the present structure of the broadcasting administration and how the head of the public television service is appointed. The KCC is led by two figures recommended by the President, one by the ruling party and the other two by the opposition, while the head of the Korea Broadcasting System (KBS) has to be recommended by the station's board of directors, which is modelled after the way the president of the BBC is elected.

Earlier this year, the opposition raised concerns that the impartiality of broadcasting could be compromised once some of the duties of the KCC, a consensus organization, are handed over to the new ministry that is not a commission-based organization in nature. The validity of such concerns was investigated, as well as time taken to fine-tune the scope of authority between the two agencies.

Internet TV

Foreign broadcasting organizations such as the FCC of the United States might find the situation hard to swallow because they are innate and unique to the broadcasting and telecom industry of

Various Functions of Smart TV

Korea.

What are your top priorities as the head of the Commission and what are you planning in regards to a creative economy?

I am planning to focus on three things. The first is the freedom of the press and its impartiality and public nature, which are the most important factors for the principles of democracy.

Second is deregulation, the purpose of which is to facilitate the convergence between telecommunications and broadcasting and the technological development of the ICT industry. We have already learned lessons from Europe's ICT industry, which is lagging behind that of the US, as well as Japan's mobile phone manufacturing industry, which has suffered from the so-called Galapagos syndrome.

Last but not least, we will provide more support for the digital content and advertising sectors, which are two of the drivers of a creative economy and offer the most favourable jobs for the young generation. Broadcasting content, including Daejanggeum (Jewel in the Palace), Psy and Pororo, have extremely high added value and can help increase Korea's international standing. Advertising, on its part, is capable of blowing a wind of change in industries as a whole in combination with certain products and regions, and is not limited to simply publicizing them.

You have paid numerous on-site visits since taking over. What do you remember the most from these tours?

I visited the Educational Broadcasting System on May 22 and had some meaningful conversations with people regarding the hot-button issue of private education.

There is no doubt that Korean parents' zeal to provide their children with better education has formed the foundation of the country's prosperity, but it has also had its own negative effects. More than 20 trillion won is spent every year for private education these days, which amounts to some 1.5% of the national GDP, with the actual sum expected to double when the portion that eludes statistics is factored in.

However, things appear to be changing. College prep institutes in Gangnam and Daechi-dong are having a hard time attracting students, while the stock prices of private education service providers have been halved according to some reports. This is because approximately 70% of the national college entrance exam is based on EBS programs, meaning that the national broadcasting service is making a significant contribution to the reduction of private education costs.

The EBS's language content is particularly good. President Park Geun-hye recently completed her successful trip to the United States, with her speech in Congress receiving rave reviews both home and abroad. She said in an interview that she studied English and Chinese using EBS's programs.

The President is highly committed to better education policy based on teaching that fosters creativity. I myself believe that EBS has a critical role to play for such a goal. I met with over 30 overseas journalists in late May this year, and all of them were highly interested in the role of the company in this regards. KCC and EBS will make joint efforts from now on so as to provide more high-quality educational content for students in all grades in various ways, including terrestrial broadcasting, cable TV, the Internet and smartphones.

The Commission recently decided to set up a policy discussion body for next-generation terrestrial broadcasting. What is the background and scope of its role?

The consultative body was officially launched on May 30 by the four terrestrial broadcasting stations and Samsung Electronics, LG Electronics, etc.

Once next-generation terrestrial broadcasting services begin, more quality content will be made available for the convenience of viewers. One example is ultra HD TV, whose resolution is four times that of existing HD TV. Its economic ripple effect is expected to be huge, with Korean and Japanese TV manufacturers vying fiercely to take the market initiative.

Japanese home electronics manufacturers and NHK are cooperating with one another, backed by the government, to regain leadership in the global TV and smartphone markets from Samsung and LG. Under such circumstances, their

Korean counterparts are striving to keep their number one spot by preparing a new roadmap for advanced terrestrial broadcasting services and further sharpening their competitive edge. The KCC will do its part by providing legal and system-related assistance. I think that the Incheon Asian Games scheduled for next year and the 2018 Pyeongchang Winter Olympics will be good opportunities to show off our cutting-edge technology to the whole world.

The issue of retransmission fee has not been resolved between terrestrial broadcasting networks and cable TV stations. What is your opinion regarding this?

The retransmission system is defined as the supply of terrestrial broadcasting programs to viewers via pay TV. As of now, the 'must-carry' obligation is applied to the programs of the KBS1 and EBS. The dispute dates back to April 2008, when terrestrial broadcasting companies, including KBS2, MBC and SBS, began to demand fees for their content. The tension was escalated last year, causing a one-week halt of terrestrial broadcasting programs.

In the past, cable TV companies needed such programs to attract more subscribers. However, the number of subscribers is around 15 million now, and I think that the matter should be considered anew in the long-term, allowing for changing conditions in the industry. Along with whether to expand the must-carry rule to cover certain channels, the Commission will consider the issue in perspective: on the one hand, the issue is about the royalty paid to the terrestrial broadcasting stations for their increased competence on the production side, while it is about paying the price to cable networks for carrying over terrestrial programs.

You are scheduled to visit the United States to look into its broadcasting retransmission system. Can you tell our readers more about this?

In the US, multiple cable TV operators compete in certain regions and thus pay TV has to make payments to terrestrial broadcasting stations. European countries, in the meantime, approach the matter from the perspective of universal service and therefore the payment is made the other way around or no payment is made at all.

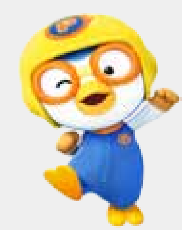
The KCC needs to decide on an approach, but it is a difficult matter as diverse market conditions must be taken into consideration. I am going to visit the FCC of the US and some local broadcasters in late July in order to better understand how to resolve the matter. At the same time, I will look around the American media market as a whole so as to create an overall picture for the development of Korea's broadcasting industry.

Political and economic interests are intertwined in the broadcasting and telecom industry. Please talk about how best to promote the solid growth of the industrial ecosystem, your own philosophy, and beliefs to that end, etc.

We have witnessed many examples of conflict between existing operators and their emerging rivals that overcome the limit of technology so as to provide more diversified services in wider regions. One such example is the DCS service, which was not available for a while due to opposition from cable TV companies. The story is the same for the multi-mode service (MMS), which allows more terrestrial channels to be transmitted using the same frequency, and advanced digital compression technology. Newspaper companies and cable TV stations are dead against the launch of the service. Yet another example is the 8-level vestigial sideband (8VSB), which allows cable TV subscribers to enjoy HD content without extra payment. It has yet to get over opposition from some program providers.

I would like to emphasize that the most important consideration in all policy decision-making processes is "how much benefit and convenience" they will give for the public. Therefore, regulations and restrictions will have to remain minimized as long as technological development helps promote public interest. No media channel should be content with past success. Instead, they will have to continue to strive to do good for the people through technological innovation.

"PORORO" NATIONAL CHARACTER AND GLOBAL BRAND



A real-time satirical animation titled "The little Penguin Pororo" was introduced in 2003 by Ocon Inc. "Pororo" is now widely recognized as the first and best example of Korean cultural content being globalized.

Pororo, which has grown into a national character and global brand, earned approximately 800 billion won in 2011 in Korea alone. This equates to every Korean child aged three to seven spending roughly 300,000 won on Pororo-related goods.

Pororo reached the finals of the world's top three film festivals and aired in 127 nations. Particularly in France, it had the record high audience rating of 51.7% in 2005.

Pororo's economic ripple effect is estimated at 5.7 trillion won per year, with its brand value standing at 400 billion won. In regards to why Pororo has been so successful, Kim Il-ho, CEO of Ocon Inc., has said, "We created a series of five-minute episodes based on ordinary children's daily lives. We use easy-to-understand words and expressions at a 10% slower tempo. We also tried to meet the children's expectations."

ICHEON CITY

First UNESCO Creative City in Korea

Based on ceramics and the ceramic festival, the city is making good use of the UNESCO Creative City network, engaged in mutual exchange activities with 34 cities in 19 countries worldwide

Mayor Cho (Center) laughs with School Children

Mayor Cho Byung-don of Icheon City has been trying to set the foundation for a self-sufficient city by attracting 252 new companies to the city and moving ahead with the goal of establishing 20 new small-scale industrial complexes for job creation. Constructions of a double-track railway and a freeway connecting Seongnam City (neighboring city of Seoul) will be completed in two years. The Jungbu Inland Railway will be put into service in 2016 to link Icheon with Mungyeong, thus significantly improving the traffic and residential environments. What follows are excerpts from an interview with Mayor Cho.

It has already been three years since your inauguration as mayor of Icheon City. Please give a brief explanation regarding your past projects and accomplishments.

My policy focus has been on making the city self-sufficient. In order for a city to be self-contained, the population has to reach at least 300,000. All daily living elements, including education, industry, healthcare, welfare, and culture, can create a virtuous cycle only when this number is met. This is why I have tried to increase the population and add creativity and cultural diversity, in order to turn it into a leading city in which the people living there can enjoy a happy life.

I have approached this goal from five perspectives. First of all, city hall is striving to create decent jobs and provide better living spaces. At the same time, it is improving its educational environment and developing the city's tourism resources. I believe that my goal will be attained if welfare and cultural elements for the public are added to such efforts.

You have just passed the halfway point in your tenure. Please tell our readers about how much of your blueprint for the city has been realized and what specific projects you now have in mind.

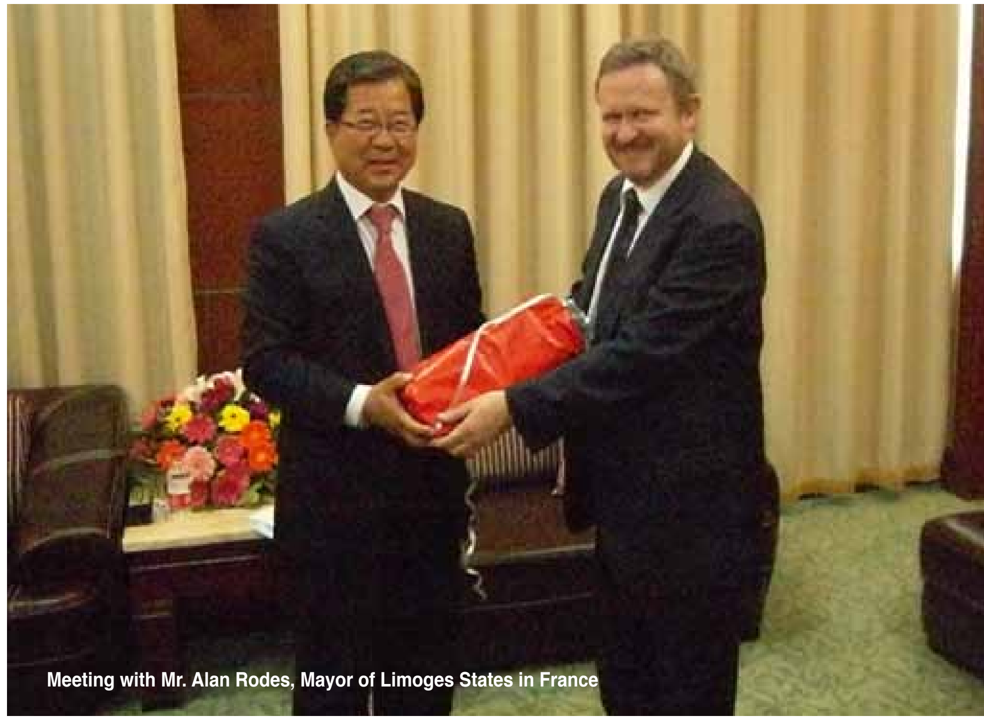
We are setting the foundation to become a self-sufficient city in leaps and bounds. Housing site development projects in the Jungri and Majang Districts are progress-

ing as scheduled, with construction work slated to begin next year and this year, respectively. Approximately 2,000 new homes will be built in the Jeungpo District, making it home to the largest number of apartments in Icheon.

City hall has been moving ahead with establishing 20 new small-scale industrial complexes in order to create new jobs. Three of these are completed, with a further 10 currently under construction. As a result, the city could house more than 160 new companies in the past three years. During my six years in office, the number of companies located in Icheon City has increased by 252, or 43%.

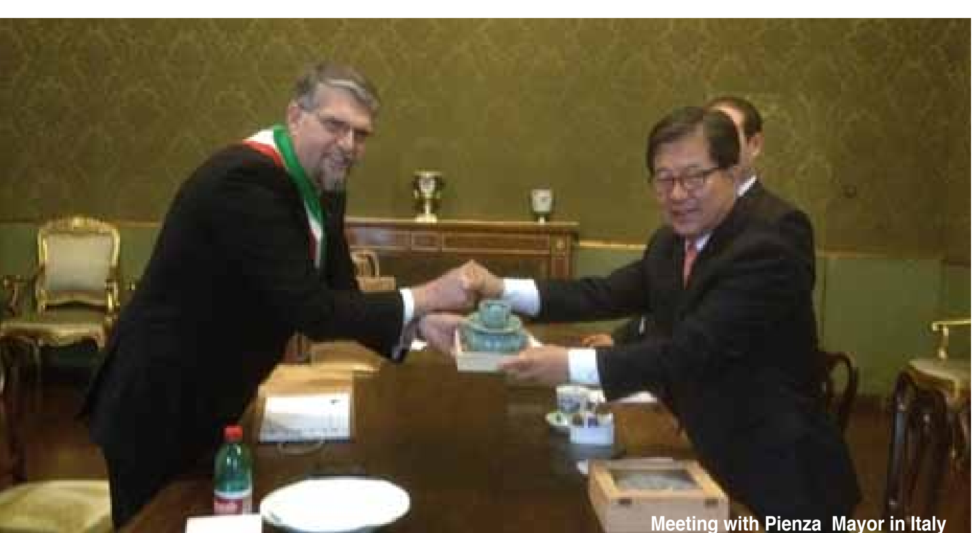
To provide a better educational environment, we established a comprehensive plan back in 2008 and have pursued its goals step-by-step ever since. The college entrance rate has increased by 35%, while honor middle school students' entry into high schools in Icheon has more than doubled. Furthermore, various investment programs are underway to build libraries and dormitories, etc.

In regards to the development of tourism resources, we have built a $400{,}000m^2$-wide pottery village and an agricultural theme park so visitors can see and experience farming and agriculture. Furthermore, we have attracted the largest premium outlet in Korea and the biggest five-star hotel in Gyeonggi Province. In addition, a number of tourist sites are also being developed.


Meeting with Mr. Alan Rodes, Mayor of Limoges States in France

A general hospital with 300 beds, something long desired by citizens, is scheduled to be completed soon, while numerous sports parks have been created so as to allow people to easily enjoy everyday sports activities. A 1,200 seat art hall was recently opened, with an eight-screen multiplex theater scheduled to open next year.

Last year, Icheon City won the highest prize at the Korea Local Government Fair. What is the meaning and significance of this award?


Meeting with Pienza Mayor in Italy

The Korea Local Government Fair is attended by roughly 250 local governments and self-governing bodies. Prizes are only awarded to seven of them, and therefore the value of this award is significant. Icheon won the Prime Ministerial award last year, building on its high scores in the agriculture and tourism, specialty agricultural goods, business environment improvement, and environmental management segments. Our accession to UNESCO Creative Cities, joint Icheon brand marketing, the Metropolitan Incineration Plant, and incentives for eco-friendly companies all played their part in the award.

There is no doubt that the Icheon Ceramic Festival is one of the most famous events of its kind. Please tell our readers more about this cultural and tourism event, as well as what the city has been doing to further raise the international standing of such festivities?

Ceramics produced in Icheon and the festival have helped create a well-known brand that is representative of the city.

Rice paddy in Icheon

UNESCO headquarters noted the city's excellent cultural infrastructure and the priceless tradition of its ceramics industry, as well as the festival itself, when selecting Icheon in 2010 as the first UNESCO Creative City in Korea. Once the Ceramics Art Village is completed in 2015, Icheon will boast the world's best pottery industry infrastructure. As a result, the festival is expected to become even more famous, building on the Creative City network and new promotion marketing campaigns.

Rice has long been one of the symbols of Icheon. Sales of Icheon Rice, also known by the brand name Imgeumnimpyo, have been brisk for years. What is the city government doing to promote the product overseas?

Many organizations, such as the Korea Management Association, evaluate local brands each year. Icheon Rice has never failed to take the top prize in these assessments. This product is exported to many countries, including the United States, Canada, Indonesia, and Hong Kong. This is because Icheon City has paid special attention to the management of specialty brands by means of an agency dedicated to this purpose. Furthermore, the agency has hosted the annual Rice Culture Festival in order to appeal to an increasing number of locals and foreigners alike. It has been a great boon to the overseas marketing of the Icheon Rice brand.

Exchange with foreign cities carries great importance these days in terms of globalization. What is the current status and outcome of Icheon's efforts in this context, and what is its' long-term strategy regarding attracting foreign investment and inter-city cooperation?

We are making good use of the UNESCO Creative City network in that aspect, and are engaged in mutual exchange activities with 34 cities in 19 countries worldwide. In addition, we are planning on cooperative relations with Santa Fe, another UNESCO Creative City, and large-scale ceramic marketing exhibitions in LA. Recently, municipal officials visited Limoges in France and Faenza in Italy in preparation for joint exhibitions with these European countries.

In regards to attracting foreign investment, Icheon City has organized a task force team with the Korea Land and Housing Corporation and the Korea Electric Power Corporation, providing various forms of administrative assistance. City hall helps prospective foreign investors purchase land in the city in compliance with the Foreign Investment Promotion Act, as well as offers subsidies for infrastructure construction.

Demonstration of Ceramic Production


Scooping rice out of an iron-pot in the Ricefestival

What infrastructure is the city working on to enhance urban competitiveness and what support measures is it providing for industrial and business activities?

Icheon has put top priority on measures to help business activities. City hall has its own division dedicated to this end, with all grade-seven and higher officials working closely with local firms; listening to their voices and dealing with over 1,000 requests every year. The small-scale industrial complexes have guaranteed efficient corporate activities for small and mid-size enterprises by means of systematic management support.

The city will continue to make full-scale efforts for corporate and investment attraction and job creation. Companies wishing to relocate to Icheon will be able to receive every administrative service they require.

Please end by talking about the attractions that are unique to Icheon, so that its citizens, entrepreneurs at home and overseas, and tourists can get a better grasp of the city.

At present, the population of Icheon is approximately 210,000. Though a small city, it is full of vigor and vitality, as well as things to see and enjoy.

Examples include the Cornus Fruit Festival held in early spring, as well as festivities related to peaches, ceramics and rice. Furthermore, Icheon is home to Korea's largest ceramics industrial complex. Icheon Rice, which has topped national brand evaluations for seven years, is readily available at local restaurants, as well as there being an abundance of feel-good spas. Meanwhile, the Icheon Farming Village 'Nadeuri' offers hands-on farming experience to tourists at 25 sites in the city.

Also, citizens can enjoy various hobbies and cultural activities at education centers, while the city's three large libraries and 17 neighborhood libraries have helped to create numerous recreational programs. Furthermore, the Yeongdong Expressway and Jungbu Expressway intersect each other in the downtown area, with both of them accessible within a 15-minute drive from anywhere in the city.

In 2015, the double-track railway and freeway leading to Seongnam City will be completed, allowing citizens to reach Seoul within 30 minutes. Icheon, a creative garden city aiming to become a self-sufficient region with a population of 350,000, is constantly striving to become the best residential area in the metropolitan area. BK


Scraping up nurungji(Scorched rice) from a Caldron

NATIONAL ECONOMY-RELATED ADVISORY COUNCIL

To Open the Age of the "70% Middle Class"

President Park Geun-hye took a move toward the full-scale economic revitalization when she presided over the National Economic Advisory Council (NEAC) meeting on May 29, for the first time since her inauguration.

The NEAC is a constitutional advisory body for President, and the only national economy-related advisory council. It was established to diagnose the current economic situation and come up with detailed policy alternatives to overcome the economic problems. It will actually drive the so-called "Geunhyenomics" by seeking specific methodology to realize the new administration's key policy slogans such as economic democracy and creative economy.

In regards to the economic situation in and out of the nation, President Park understands the nation has already been on a low-growth path and emphasizes the economic revitalization through creative economy as a policy direction.

President Park selected 30 experts from various fields as the members of the NEAC prior to the meeting on Wednesday. President Park is the chairperson of the NEAC, of course. There are five standing members of the NEAC; the Deputy Prime Minister, the Minister of Science, ICT & Future Planning, the presidential chief of staff, the presidential chief secretary for economic affairs, and the presidential chief secretary for future strategies.

Among the 30 experts from the private sector is Hyun Jeong-taek, a professor of the department of international trade and regional studies at Inha University, who has now been appointed as the vice chairman of the NEAC. Most of the others are from President Park's former think tanks such as the Institute for the Future of State (IFS) and the presidential transition committee.

The previous administration had similar kinds of advisory bodies such as the "Presidential Council on National Competitiveness" and the "Presidential Council for Future & Vision," all of which have been combined into the NEAC now. Under the NEAC, there are four departments dealing with creative economy, economic welfare, fair economy and macro finance.

The 1st National Advisory council

The NEAC is not a council for meetings. It diagnoses and analyzes the economic situations from an objective point of view, provides the base for the government's policy making process, suggests supplementary measures or remedies if needs arise, and functions as a bridge between the public and the government through the on-the-spot collection of public opinion.

The NEAC has a meeting every quarter and its four departments report their job on a monthly basis.

The NEAC's activities are focused on assessing the government's major policies for economic recovery, stable economic welfare and the like; unearthing the future agenda to respond the changing trends at home and abroad; detecting obstacles to creative economy and helping the related government offices cooperate with each other; and promoting timely and accurate delivery of information on the policies to the public and market.

President Park demanded at the NEAC meeting that various economic players make double efforts to speed up the advancement of the national economy which she believes is already on a low-growth path.

"Korea is getting older at the fastest pace among the OECD member countries, and has an extraordinary sort of country risks called the 'North Korea risks.' The country is now witnessing the continuous pattern of low growth and the rapidly-falling growth potential," said President Park. She also emphasized the nation needs a fundamental change in its economic paradigm from the chaser-style economy to the leader-style creative economy in order to achieve the new administration's major policy tasks such as the "Employment at 70%" and the "Middle Class at 70%."

She added, "We need drastic actions against the conventional approaches and practices to succeed in jumpstarting the national economy once again. If our way of thinking still stays in the past when the time has changed and the previously-devised measures have turned out problematic, we will never meet the demands of the times."

CURRENCY SWAP AGREEMENT

Korea and Japan Not to Extend

The Ministry of Strategy and Finance and The Bank of Korea announced on June 24 that they opted not to extend the Korea-Japan currency swap agreement. The deal, which is worth US$3 billion, is scheduled to expire on July 3. The bilateral contract has continued for eight years.

As a result, the currency swap agreement between the two countries, and which is based on the Chiang Mai Initiative between the three Northeast Asian nations and Southeast Asian nations, will be reduced to US$10 billion.

The total had increased to as much as US$70 billion in October 2011, but fell to US$13 billion in August last year, when former Korean president Lee Myung-bak visited Dokdo Island; worsening diplomatic relations between Korea and Japan. At that time, Japan explained that it did not increase the contract amount as Korea made no request to do so. More recently, the Japanese government has been claiming that it would extend the agreement only on condition that Korea asks for an extension.

In regards to the issue, The Bank of Korea governor Kim Choong-soo said two weeks earlier, "The currency swap deals' purpose is to stabilize the financial market, but the Korean government has made use of only that signed between Korea and the United States," implying that he would not extend the won-yen currency swap arrangement. He went on to say, "Even part of the deal between Korea and China has been used for trade settlement yet the one between Korea and Japan has not been employed at all, with the amount of US$3 billion having little meaning."

Japan has also been rather pessimistic in regards to the extension. Chief Cabinet Secretary Yoshihide Suga said at a press conference held on June 21, "We would extend the agreement if it was deemed necessary, but will not try to do so if Korea says the deal is of little help."

Why Is It Terminated?

Financial experts are claiming that the decision is because the contract amount is as small as US$3 billion, the agreement is based on the conversion of the Korean currency into the Japanese yen, not the US dollar, and that currency swap is not such an urgent matter given both countries' financial conditions recently.

However, some are commenting that deteriorating diplomatic relations between the two should be factored in as well. According to these, Japan has tried to use the currency swap for political purposes, like it did last year when part of the currency swap deal came to an end. The Japanese government has played the media for a while concerning the currency swap, for example repeatedly claiming that Korea is begging for an extension. The strategy is said to have to do with the government's attempt to raise its approval rating. The Abe administration's conservative swing is also a contributing factor.

How Will the Korean Economy Be Affected by the Discontinuation?

In the meantime, termination of the contract is unlikely to significantly affect the Korean financial market.

"The current economic difficulties Korea is experiencing is not because of the lack of yen," said Lim Hee-jeong, a research analyst at the Hyundai Research Institute, adding, "The termination is not expected to act as an important variable in the market."Another financial industry source added, "The currency swap between Korea and Japan has been of little help up until now, carrying less weight than the one with China."

At present, Korea and China are in a currency swap deal worth US$58 billion, which is the largest amount since the mutual contract began. BK

FINANCIAL SUPERVISORY SYSTEM

Domestic and International Financial Policies Will Go under One Umbrella

Government functions regarding domestic and international financial policies, tasks currently carried out by the Financial Services Commission (FSC) and the Ministry of Strategy & Finance (MOSF), respectively, will be combined under one umbrella.

According to the FSC's taskforce team for the reform of the financial supervisory system, it plans to submit a final report no later than late June, in which it will suggest unification of domestic and international financial policy functions and no new organization for financial stability. So far, taskforce team members have reached an agreement regarding unification of the two functions, yet no consensus has been made in regards to which organization will take the job.

Taskforce team leader Kim In-chul said, "All team members agree that domestic and international policies should be addressed by one organization. However, more discussions will be held regarding organization."

The idea of a financial stability council was that heads of the MOSF, FSC, The Bank of Korea and Financial Supervisory Services (FSS) will convene to come up with counter measures against emerging financial problems. However, this idea will not be realized due to differences in view among taskforce team members.

Kim explained, "There are different views regarding the establishment of a financial stability council. I think it is not a big deal anyway because we already have the principle about protection of financial consumers. In fact, the government can establish such an organization anytime it wants. Therefore, we have chosen not to discuss this issue any more."

Another source from the taskforce team said, "The final report will not include the issue about the establishment of a financial stability council. That's the decision from our most recent meeting."

The taskforce team has also agreed not to introduce the so-called "Twin Peak Model" by which the financial supervisory function will be divided into two categories; supervision of the financial institutions' soundness and protection of consumer rights.

Instead, the team will likely suggest that the Financial Consumer Protection Bureau (FCPB) under the FSS have more power and independence, as well as additional responsibilities to control and monitor microfinance service providers.

More specifically, the taskforce team thinks that the head of the FCPB should be promoted from deputy governor to senior deputy governor, be one of the FSC commissioners, and be given independent right regarding personnel management and budget.

Kim said, "We think it will be better to strengthen the FCPB rather than separate it from the FSS. We also need stricter supervision over savings banks and many kinds of microfinance institutions." The taskforce team is still negative about having separate offices for financial policies and supervision. Opposition parties have argued that the FSC's controlling power over financial policies and supervision be separated and there should be a more independent and powerful organization for financial supervision. However, the taskforce team is in fact against this. BK

6th Asia Pacific Financial Forum 2013

GLOBAL TAX WAR

Concern regarding Overseas Businesses Grow

The world's leading IT company; Google, saw advertising revenue of US$ 18 billion for the period from 2006 to 2012, yet paid just US$ 16 million in taxes, less than 0.09% of total revenue. The company had its European headquarters in Ireland, a country known as a tax heaven, while falsely claiming revenue from Britain came from its European headquarters. As a result, the British Parliament criticized Google at hearings this year, yet was less than successful in overturning Google's claim that it was a legitimate tax saving.

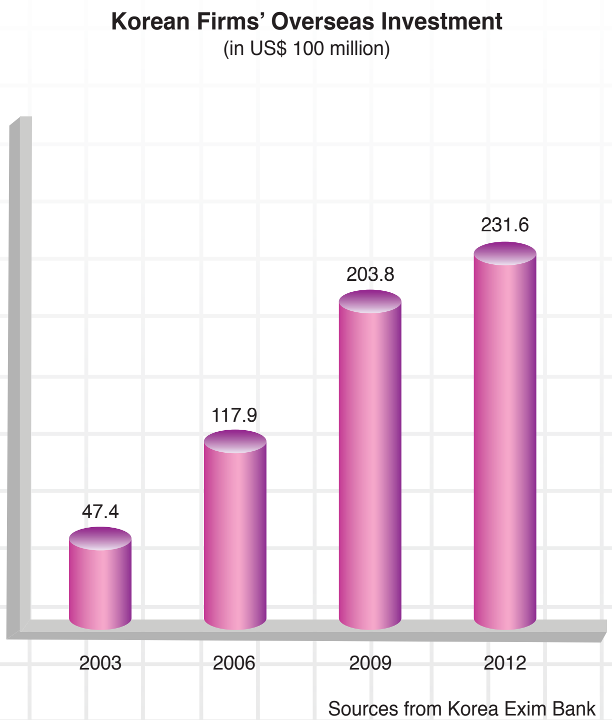
The Korea Customs Service discovered some income tax avoidance cases in Diageo Korea, a subsidiary of UK-based Diageo, a company well-known for its whiskey "Windsor". Diageo Korea paid an extraordinary amount of management guidance fees to its parent company in Britain for years, as they were regarded as a de facto payment of dividends, no taxes were paid. However, income tax must be governed by the National Tax Service, not customs. Diageo Korea has claimed that many Korean companies are doing the same overseas. As a result of uncertainty surrounding the issue, the Korea Customer Service was limited in what it could do against the company.

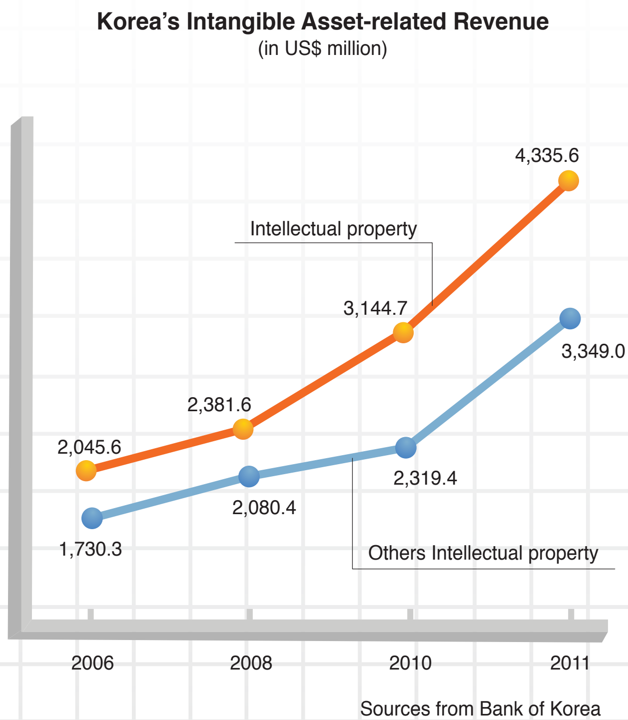
The above-mentioned cases are examples of delicate tax avoidance cases involving large, multi-national companies that make money across national boundaries. For example, Google evaded the provision regarding "Permanent Establishment," a requirement for the taxables specified in the tax code. Meanwhile, Diageo used a loophole regarding "Transfer Pricing," another hot issue related to the income taxes of multinationals. Such cases are not simply a problem for Korea and the UK, but for many countries where multinationals invest and take back large profits in the name of dividends and advisory fees.

In an attempt to solve these kinds of problems, the OECD's Committee on Fiscal Affairs (CFA) passed a motion on 15 action plans against multinationals' tax avoidance ("Double Tax Exemption") in a general meeting in May. Among the action plans to be taken are tighter regulations regarding the permanent establishment and transfer pricing on intangible assets.

Who will be the target of anti tax-avoidance measures?

The action plans will be detailed through the related parties' research and discussions for the upcoming two to three years. Targets will be the headquarters of multinationals and subsidiaries, as well as IT companies, explained





a source from the Ministry of Strategy & Finance (MOSF). Some tax experts from the private sector predict that the global funds of financial institutions and constructors engaged in foreign projects will also be targeted.

If such detailed action plans are executed, foreign companies' e-commerce deals through overseas servers, even those not based on the actual establishment of Korean subsidiaries or business places, will be interpreted as satisfying permanent establishment requirements in Korea. "With tougher international regulations (i.e., OECD nations' agreement regarding tax investigation), we will have a legal base for withholding taxes in Korea when some deals are apparently seen as de facto e-commerce contracts even though they are not based on the actual establishment of Korean subsidiaries, branches or servers," said Oh Yoon, a Hanyang University's law school professor. This means that authorities may change related tax codes so as not to accept the extraordinary amounts of intangible asset-related fees paid to overseas subsidiaries or parent companies. If so, companies such as Diageo Korea will have to pay more income taxes to Korean tax authorities because they will have higher taxable income.

Korea shouldn't be swayed by advanced nations and BRICs.

It is seen as good for the increase in national tax revenue on a short-term basis. However, the nation may have more losses than gains on a medium and long-term basis, say some tax experts. This is because Korean companies' investment and business expansion in the global market is increasing at a far faster pace than foreigners' entering the Korean market.

In regards to the transactions of intangible assets, Korea gained US$ 2.045 billion in 2006 but rose to US$ 4.320 billion in 2011, more than double. This money was brought into Korea in the name of brand royalty, patent royalty or management know-how fees from the Korean companies' overseas subsidiaries which expanded their international production and distribution networks. "Korea is a small-size open economy. We should attract investment with low tax barriers, just as tax heavens do. If we take an equivocal attitude in the global tax war, we can become sandwiched between advanced nations and BRICs," said Lee Kyung-geun, a tax accountant from Seoul-based law firm Yulchon. The MOSF has similar worries, claiming Korea is not strong enough to fight against the advanced nations.

FOREIGN INVESTORS

Selling Samsung Electronics Shares

Foreign and institutional investors in the Korean stock market are moving in opposite directions with regards to Samsung Electronics. The former have recently sold their Samsung Electronics shares in large quantities out of concerns over the company's growth potential in the global smartphone market. In response, local brokerage firms are retorting that such bear raiding is groundless. According to the Korea Exchange (KRX), institutional investors' and pension funds' straight purchase of shares amounted to 174.7 billion won and 96.9 billion won this month, respectively. Meanwhile, their foreign counterparts' net selling reached 790.5 billion won during the same period.

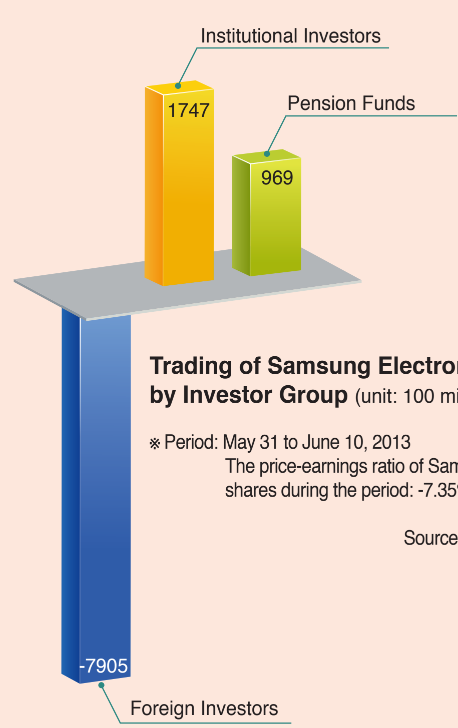
On June 10, foreign investors dragged down the KOSPI index by selling Samsung Electronics shares worth 231.9 billion won in total. The decline was triggered by a JP Morgan report that stated Samsung Electronics' business profit ratio would fall in the latter half of this year due to lower-than-expected sales of the Galaxy S4. "One of the long-term investment funds owned by foreign investors has reduced the ratio of Samsung Electronics out of concerns over its mobile phone business prospects," said a local analyst, adding, "However, the selling spree seems to have more to do with intensifying market competition and the growth limit of the overall smartphone market rather than problems with the handset manufacturer itself."

Local mobile phone component manufacturers agreed with the negative view, stating that Samsung Electronics' smart phone business lost steam in the second quarter of this year. "It can't be denied that the Galaxy S4 is enjoying less popularity than previous models, though official statistical data has yet to be announced," said an industry insider. He went on, "It is said that Samsung is trying to release the Galaxy Note 3 earlier than scheduled in a bid to make up for the damage." JP Morgan, in this context, lowered its sales forecast for the product for this year from 80 million units to 60 million following a survey of component suppliers.

However, Korean securities companies remain optimistic about prospects. "Sales of the Galaxy S4, which are estimated at approximately 12 million and 10 million units in May and June, respectively, will meet the expectations of many in the end, dispelling the worries of some investors," said Roh Geun-hwan, a research analyst at Korea Investment & Securities, adding, "The figure is likely to top eight million a month during the third and fourth quarters of this year." KDB Daewoo Securities estimated that Samsung Electronics' annual smartphone shipments for this year would increase 48.5% from a year earlier to 320 million units.

Under such circumstances, the stock price of Samsung Electronics is moving sideways. Daiwa Securities and Morgan Stanley are taking a net buying position, unlike Merrill Lynch, CLSA and UBS. Local pension funds, which purchased 120 billion won worth of stocks during the recent correction period, sold dozens of billions of won worth of shares yesterday. However, institutional investors are continuing to buy the shares.

"The stock price is expected to decide on its direction depending on various factors, including what Apple will do in the future, in addition to Samsung's own business performance for the second quarter," said an industry source. He continued, "For the time being, the stock price is likely to show no rapid increase or decrease with investor groups having different outlooks." BK



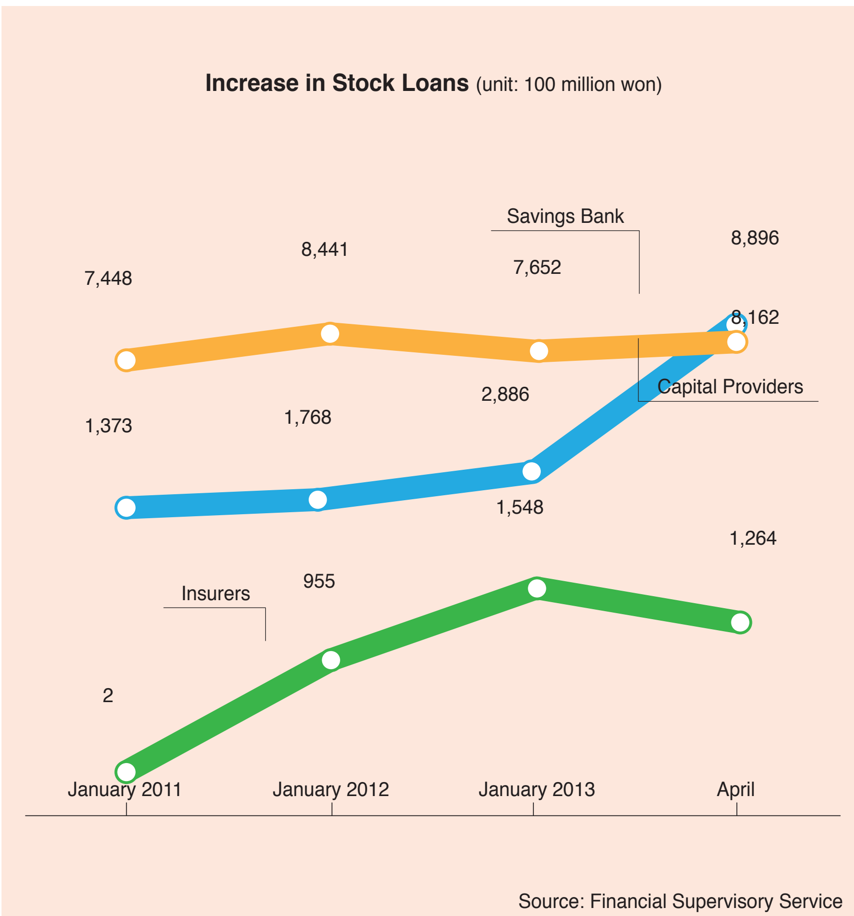
Trading of Samsung Electronics Shares by Investor Group (unit: 100 million won)

※ Period: May 31 to June 10, 2013
The price-earnings ratio of Samsung Electronics shares during the period: -7.35%

Source: Korea Exchange

KOREAN INVESTORS

Going into Debt



Non-life insurance firms and capital providers are advising stock investors to get stock loans, which have been offered mainly by savings banks. As they are attracting customers by means of department store gift cards, lower lending rates and so forth, the size of stock loans offered by non-life insurance companies has increased 600-fold compared to two years ago. Furthermore, the total amount of loans for stock investment is estimated at approximately 14 trillion won, causing a potential problem if the financial markets of emerging countries wobble due to the quantitative easing exit strategy of the United States.

According to the Korea Financial Investment Association (KOFIA), Orix Capital is currently giving out gift cards to customers obtaining stock loans, while Woori Capital has cut its lending interest rate from 6.5% to 3.9% for the first three months of the loan term and 4.7% for the following three months. IBK Capital and Shinhan Capital have also cut their lending rates or remitted loan extension fees.

As a result of such aggressive marketing activities, the size of stock loans offered by capital providers increased from 137.3 billion won to 389.6 billion won between January 2011 and the end of April this year. On the part of insurers, the figure skyrocketed no less than 600-fold to around 126.4 billion won during the same period.

According to KOFIA statistical data, the amount of margin loans soared by more than a trillion won during the last three months to reach approximately 4,924.6 billion won on April 11. That of loans collateralized with deposited shares increased by roughly 400 billion won this year to 7.483 trillion won. When stock loans, which totaled 1.332 trillion won at the end of April, are taken into account the total amount of loans for stock investment approaches 14 trillion won.

Under such circumstances, experts are warning that a possible drop in stock prices could lead to covering and empty accounts. “Individual investors are finding the KOSDAQ market more attractive as the government has declared it will promote venture firms in the framework of a creative economy, with the lowered lending rates resulting in reduced financing costs,” said Lee In-hyeong, director of the Capital Markets Division of the Korea Capital Market Institute. He continued, “However, they have to bear in mind that losses could surge since the leverage effect is based on stock loans, and margin loans, etc.”

Another industry insider added, “These types of loans are definitely lucrative for financial companies, but they have to refrain from giving such loans excessively because these are highly risky products.”

Implications of Rising Interest Rates

Daniel Cho CFA,
Head of Research, Daishin Securities, Korea.

The yield on three-year Korean government bonds, which fell to 2.44% in early May, has risen to back above 3%. The yield on 10-year US Treasuries surged from 1.62% in early May to 2.54% in June.

Is this upswing of interest rates positive for the economy and financial markets?

The answer is "It depends." Actually, it depends on key drivers behind the rise in interest rates.

Different risk factors weigh on different crises. In the late 1990s, global economic and financial risk factors sent interest rates higher, such as during the Asian economic crisis (credit risk). In the summer of 2008, oil prices surpassed $140, setting the stage for a global financial crisis (inflationary risk). Fast forward to June 2013, markets are in the grip of fear over US QE tapering (liquidity contraction risk). The risk-induced rise in interest rates increases the financial burden on companies, especially those with low credit ratings, and that is reflected in stock markets.

In contrast, the interest rate spikes in the first half of 2009 and during the three-year period from 2005 to 2007 were driven more by economic recovery expectations. When economic fundamentals improve, money demand rises, causing interest rates to climb. In such a scenario, economic growth will follow. If this occurs, higher interest rates are good for the share prices of materials and industrial stocks that are heavily exposed to bank loans. Positive effects from increasing demand more than offset any negative effects from higher interest expenses when there is an economic recovery. Financial institutions' earnings also improve when interest rates rise.

Different asset markets move differently, depending on the main drivers of higher interest rates, which send two conflicting messages. Higher interest rates reflecting increased risks push down stock markets, whereas higher interest rates reflecting positive economic expectations push up stock markets in a rotation from bonds (safe assets) to stocks (risk assets).

The biggest factor behind the ongoing global market correction is US QE tapering worries. All other factors (Abenomics volatility, China's credit crunch, and Europe's problems) are only secondary factors. We believe the current stock market correction is temporary. Investor confidence in the strength of a real economic recovery is shaky, and worries linger regarding a pullback of liquidity that has been shoring up investor expectations for so long. However, stock markets will overcome this wall of worry over time.

US economic fundamentals are recovering to the extent that QE is necessary (the same level before the September 2008 Lehman Brothers collapse). For instance, as recently as April 2013, average US home sales prices, an indicator of consumer buying power, were higher than in September 2008. The US economy is recovering to a point where QE is no longer needed. US economic fundamentals are stronger than they were when QE1 and QE2 ended. Investors will gradually regain optimism regarding economic recovery, finding evidence of a sustainable US economic recovery in housing prices, employment, and consumption data.

Meanwhile, the Korean economy will take an upturn in the second half, with


Daniel Cho

GDP growing more than 3%. Its 2Q13 GDP growth, to be released in late July, will show a Korean economy bottom outing, adding fuel to positive expectations.

Our view of interest rate movements and economic data is that as of June, economic recovery expectations explain only 13% of the rise in US interest rates, while QE tapering accounts for the remaining 87%. In Korea, dividend stocks are holding their ground in spite of rising bond yields, another indicator that risk factors are still driving the rise in interest rate.

The main catalyst of higher interest rates will gradually switch toward economic recovery expectations.. Domestic institutions have no choice but to increase exposure to risk assets even in the absence of strong confidence in the economy's recovery. Having reaped handsome gains from bonds over the past four years, high net worth individuals will look for higher returns in equities. As a result, funds will flow back into Korean stocks in the second half.

CORPORATE BONDS

Bonds to Mature in H2 to Increase Risk of Credit Crunch

It has been found that no less than 20 trillion won in corporate bonds mature in the second half of this year in Korea, posing a significant challenge to the local corporate financing market, with overall financial markets fluctuating because of concerns over the United States' quantitative easing exit strategy.

These days, the corporate bond yield rate is rising rapidly due to such concerns, the economic slowdown in China, and the current STX scandal, thus further adding to credit crunch risks. However, financial authorities are continuing with a lukewarm response, with market participants calling upon the government to come up with measures for liquidity expansion.

According to the Financial Supervisory Service, corporate bonds worth a total of 19.855 trillion won will mature in the latter half of 2013, which is larger than the 19.403 trillion won for the first half. The sum is divided into 1,768.1 billion won for July, 3,350.4 billion won for August and 4,310.1 billion won for September. Furthermore, the figure surpasses five trillion won for October.

Under such circumstances, the possibility is increasing that underwriters will refuse to accept corporate bonds, causing financing failures and a decline in the credit ratings of companies. In addition, the yield rates of even investment-grade corporate bonds are increasing nowadays, raising the possibility of financing difficulties.

"Anxiety is spreading fast as adverse conditions continue to appear one after another," said a research analyst at a local securities company, adding, "More than a few companies could face a credit crunch this year after failing to raise funds." Another stock market researcher commented, "Even investment-grade companies with a credit rating of A- or higher could be involved with such risks, not to mention the more vulnerable ones in the shipbuilding, shipping and construction sectors."

As a matter of fact, the coupon rate of bonds recorded an all-time high of 3.40% on June 21 for those with a credit rating of AA- or higher. The figure ended up at 9.05% for those with a rating of BBB- or lower the same day, breaking the 9% mark for the first time since July 28, 2012.

The six companies that signed financial restructuring agreements this year -- Hanjin, STX, Dongbu, Kumho Asiana, Taihan Electric Wire and Sungdong Shipbuilding -- are more likely to have financing troubles down the road. The amount of maturing bonds is especially high for STX Group (580 billion won) and Dongbu Group (422 billion won).

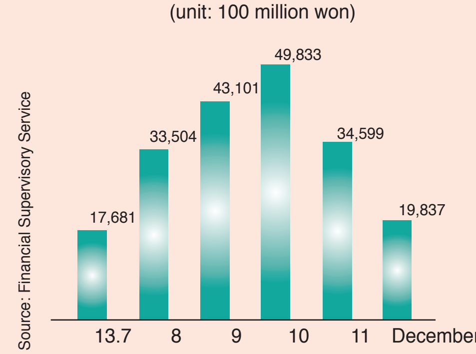
Nevertheless, financial authorities are showing no signs of taking drastic measures, causing many people to worry about the repetition of mistakes made during the 2008 global financial crisis.

"It is true that the situation is not favorable for certain sectors and companies, but we need to look into whether investment demand itself has decreased or investors are now less interested due to the lower-than-expected coupon rate level," said the financial watchdog. It went on to say, "If the corporate bond spread expands, we can take some measures in the form of bond stabilization funds or preferred underwriting." The Financial Services Commission added, "We're currently monitoring the situation in order to get a grasp of it, but various policy measures will be mobilized once signs of a credit crunch are detected."

However, market experts are claiming that now is the time for the government to step in, stating that it was slow to take a step back in 2008, and thus exacerbating the turmoil. "The government should not take more time, but instead play a trump card for corporate liquidity expansion," said a bond market analyst at a local brokerage house. He went on, "The Korea Development Bank will have to supply liquidity or allow more funds to be invested in order to buy corporate bonds."

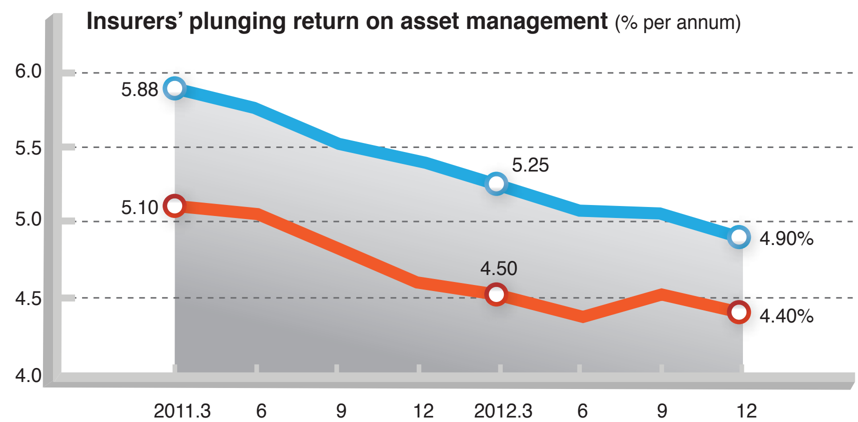
Another analyst remarked, "It is almost impossible to tide over the current crisis without the government issuing primary collateralized bond obligations or purchasing corporate bonds on a preferential basis," adding, "The Fed's exit strategy will tighten the global monetary supply, making local investors refrain from corporate bond investment, and thus authorities will have to take aggressive measures in order to supply liquidity to companies in the shipbuilding, construction and shipping industries."

Corporate Bond Maturity Amount by Month
(unit: 100 million won)



KOREAN INSURERS

Investing in Foreign Real Estate



Sources from Financial Supervisory Service

With deposit interest rates plunging to one to two percent per annum and bond yields still at two to three percent, many Korean insurance companies are turning their attention to overseas real estate properties. They are increasing investment in products other than financial instruments because the Age of Low Interest Rate has made it difficult to find good investment portfolios in the money market.

The most popular investment targets are in London and other big cities that ensure steady returns at five to six percent per annum and see a large demand for rental space. The financial supervisory authorities recently began to support insurers' overseas investments through deregulation.

The most active insurer in alternative asset investment is Hanwha Life Insurance, which invested roughly 250 billion won in the Eversheds Building located in a famous financial street of London, through a joint private real estate fund with its affiliate Hanwha General Insurance in October last year. The company has also been preparing to take over the Gallileo Building in Frankfurt, Germany since April.

The 38-storied Gallileo Building is located near Frankfurt Central Station. It is known as the city's landmark, and features the shape of two buildings connected.

A Hanwha Life official said, "The price of the building is roughly 200 billion won, and we are thinking of investing around 100 billion won." Hanwha Life expects roughly a 6% return from the rental business, and say the building will provide an early 6% return. That is approximately 1% point higher than Hanwha's current return on asset management (early 5% level).

Samsung Life Insurance is also active in overseas real estate investment. It established "Samsung SRA Asset management," an affiliate specialized in real estate investment, last year and began overseas real estate investment activities. Last month, Samsung Life decided to acquire the 30 Crown Place Building located in London's financial district through the affiliate. This 16-storied building, constructed in 2009, is used as the headquarters of global law firm Pinsent Masons on a long-term rental contract basis. The expected rate of return is known to be five to six percent.

It is said that Samsung Life will soon buy another office building in the same area, a building currently used as the British headquarters of Germany-based Commerzbank. The price for the Government of Singapore Investment Corporation (GIC)-owned building is about 570 billion won. It is the most expensive real estate property that Korean insurers have ever acquired overseas.

The reason why insurers are so active in alternative investment and financial authorities are supporting them is that investors can earn higher yields (5~6%) than the domestic average (4%).

The native insurers' return on asset management has plunged from the 5% level to the mid 4% level since cuts in the key interest rate. Life insurance companies pay a total of 16 trillion won in interest for insurance premium deposits totaling 282 trillion won, yet earn only 14.9 trillion won in return on investment, resulting in a 1.1 trillion won minus spread (loss).

Insurers' traditional alternative investment was the private sector's social overhead capital (SOC) projects, and build-transfer-lease (BTL) projects, a public-private partnership model in which a private entity builds a complete project and leases it to the government. For example, Kyobo Life invested in the Sangju-Youngcheon Expressway and Dongducheon Combined Cycle Power Plant projects, while KDB Life invested in the Busan Cheonmasan Tunnel, and Woori Aviva Life in the dormitory of Ulsan National Institute of Science & Technology (UNIST).

However, insurers are becoming more active these days in the overseas alternative investment market. Kyobo Life recently joined Samsung SRA's acquisition of a London office building and is now proceeding with the establishment of its own affiliate for alternative asset investment.

OWNERS OF CONGLOMERATES

Holding Sway through Cross Investment

It has been found that the owners of big businesses in Korea and their family members are continuing to exert significant influence on their companies. Such inside ownership is currently over 50% on average, while all of the top 10 corporate groups have recorded an increase in inside ownership and affiliated ownership since the beginning of this year. At the same time, cross shareholding is still commonplace, most of which is designed to further solidify control over companies.

On May 30, the Fair Trade Commission (FTC) released data on the shareholding and circular equity investment of 62 conglomerates subject to a ban on cross investment. These 62 are divided into 43 chaired by the owners, eight by non-owners and 11 in the public sector.

Low Shareholding Ratio but Tight Control over Entire Subsidiaries

According to data, the 43 business group's average inside ownership fell from 56.11% to 54.79% between 2012 and 2013. However, the percentage rose from 4.17% to 4.36% when the relatives of the heads were factored. Affiliated ownership declined by 1.40 percentage points from 49.55% during the same period.

"The decline in inside ownership is because some new conglomerates, whose inside ownership is lower than the average such as Hansol and Amore Pacific, have been newly included in the analysis. However, Woongjin Holdings went through stock retirement in Kukdong Engineering & Construction, one of its subsidiaries where it had large shares," said Shin Yeong-seon, director of the Competition Policy Bureau of the FTC, adding, "The merger between S-LCD and Samsung Mobile Display also played a part."

The inside ownership of the 43 business groups dropped for the first time in three years. Nevertheless, the figure has remained higher than 50% for the last five years -- 52.86% in 2009, 50.50% in 2010, 54.20% in 2011, 56.11% in 2012 and 54.79% in 2013.

Family ownership is especially high in Hankook Tire (34.84%), Booyoung (34.81%) and Amore Pacific (23.81%), but low in SK (0.69%), Hyundai Heavy Industries (1.17%) and Samsung Group (1.27). Of the 1,519 subsidiaries in the first category, 57 firms of 21 conglomerates are completely owned by the heads and their family members.

The inside ownership of the 10 largest business groups was below 50%

on average from 1994 to 2010, with the only exception occurring 1999. However, it totaled 53.5%, 55.73% and 52.92% in 2011, 2012 and 2013, respectively.

The owners' and their families' shareholding ratio fell in all groups, but affiliated ownership increased among those in the top 10 list. "There has been some improvement in ownership structure when compared to the previous year, but the heads and their families of leading business groups have been found to be still maintaining tight control over all affiliates through mutual investment," added the director.

Samsung and Lotte Group Engaged in Complex Form of Cross Shareholding

Such cross investment is characterized by structural complexity. Specifically, they have gone through an average of 4.51 steps in 35.33 affiliates. This is especially conspicuous for Samsung Group and Lotte Group. In contrast, groups without a head tend to have a more vertical mutual investment structure, with the number of steps as small as 1.52.

The number of the steps with a shareholding ratio of at least 1% reached 124 in 14 groups, 69 of them in 9 groups being formed in or after 2008. "It seems that there are some cases in which cross investment has been used to further control, support insolvent subsidiaries and avoid regulations," the director added.

Circular equity investment is particularly prevalent in financial companies and insurers, e.g. Samsung Group's Samsung Card and Samsung Life Insurance, Dongbu Group's Dongbu Capital and Dongbu Life Insurance, Hyundai's Hyundai Securities, and Tong Yang's Tong Yang Securities and Tong Yang Life Insurance. Hyundai Motor Group, in the meantime, is engaged in cross shareholding in three major subsidiaries -- Hyundai Motor Company, Kia Motors and Hyundai Mobis.

The Hyundai Heavy Industries, Daelim and Halla Groups are involved in the practice in only three subsidiaries, while Lotte's cross investment revolves around Lotte Shopping, Lotteria and Lotte Confectionary. Hanjin Group, Hyundai Department Store and Hyundai Development Company are making mutual contributions in just one main subsidiary; Korean Air, Hyundai Department Store and Hyundai Development Company, respectively. This is similar for Young Poong (Young Poong) and Hansol (Hansol Paper).

Hansol Newly Added to Business Groups Involved in Cross Equity Investment

The number of conglomerates whose subsidiaries are engaged in mutual contribution with a shareholding ratio of 1% or higher has increased to 14, with Hansol added to the list. Compared to last year, Lotte, Hyundai, Hyundai Department Store, Tong Yang and Hyundai Development Company recorded increases in the shareholding percentage between subsidiaries involved in cross investment or made new mutual investments.

Hyundai Motor Group, Hanjin and Dongbu moved in the opposite direction, while Daelim, Hyundai Heavy Industries and Halla maintained the same shareholding percentage year-on-year. In regards to Samsung and Young Poong, an increase and decrease in shareholding percentage has been observed, respectively.

Mando Corporation of the Halla Group provided assistance for Halla Engineering & Construction by means of cross investment. Specifically, it participated in a paid-in capital increase by Meister totaling 378.6 billion won, with Meister then offering 345.3 billion won for the paid-in capital increase by Halla Engineering & Construction.

"Laws need to be made immediately to ban new cross shareholding in order to prevent such cases of support for insolvent subsidiaries and corporate succession," the director explained, stressing, "Information and data must be disclosed on a wider scale to ensure better monitoring."

Growth-first Policy for the Past 30 Years

Helping Korea Become the World's Eighth-largest Trading Nation

Korea enjoyed rapid economic growth in the 1980s, with particularly astonishing growth from 1986 to 1988. At that time, the figure topped 10%, with inflation remaining below 3%. An annual trade surplus of over US$10 billion was enough to imbue people with pride. External economic conditions also worked in the country's favor. Interest rates and international oil prices were low, while exchange rates also moved to the nation's advantage.

Fast Growth Thanks to Favorable Economic Conditions

Advanced and emerging economies began to work on alternative energy sources and promote energy saving in the wake of the oil crises in the 1970s. Petroleum exports from OPEC member nations declined; chipping away at the solidarity among them. Saudi Arabia, the world's largest oil-producing country, opted to increase its production, thus dragging down the international price to below US$20 per barrel. This provided a huge opportunity for Korea, which relied upon the energy-guzzling heavy and chemical industries for economic growth.

In the mid 1980s, the US government's Reaganomics exacerbated the twin deficit problem, that is, fiscal and trade deficit, and this finally affected the foreign exchange market. The purpose of this was to restore export competitiveness by depreciating the dollar.

Other leading economies adopted tight monetary policies in order to prevent the value of their currency from dropping vis-à-vis the US dollar. The trend resulted in an economic slump, causing G5 member nations to agree to an appreciation of the Japanese yen. This, in turn, led to higher competitiveness for Korean exporters, with the prices of raw materials dropping. As a result, Korea succeeded in emerging from its chronic current account deficit.

Labor Movement in Full Bloom in 1987

However, there were some downsides as well. One such problem was unreasonable labor relations which were a result of the previous military dictatorship and patriarchal social traditions.

Things changed from the 1980s, when a substantial number of laborers became self-conscious as their average income increased along with their level of education and awareness of democracy.

The nationwide strikes of 1987 were triggered by the establishment of a labor

union for Hyundai Engine, located in Ulsan City, on July 5. Other Hyundai subsidiaries in the city followed suit, with labor unions organized in Mipo Shipbuilding, Hyundai Heavy Electricals and Hyundai Precision & Industries Corporation. On August 17, approximately 30,000 workers belonging to these unions staged a rally in front of the main office of Hyundai Heavy Industries. The following day, no less than 60,000 workers held a demonstration march towards the Municipal Stadium of Ulsan City, forming a 4km-long procession. The spirit of these protests spread across the country through Masan, Changwon and Geoje Cities.

These workers demanded an improvement in working conditions, increased wages and democratization in the workplace. The number of strikes that took place during a three month period was double that of the preceding ten years, with the number of participants involved more than five times more. Approximately 1,400 labor unions were newly established, bringing the total to over 4,100. As a result, the number of labor union members skyrocketed to 1.27 million by the end of 1987.

The collective labor movement of that year was the largest of its kind in Korea since the modern definition of the term ‘wage earner’ first appeared. Prior to this, labor campaigns had been led by female workers in industries such as apparel manufacturing, but following this the focus shifted toward male laborers in the heavy and chemical industries.

Real-time Financial Transaction System and Accession to OECD

On August 12, 1993, then president of Korea, Kim Young-sam, issued an emergency order to implement a real-name financial transaction system. The government had allowed alias-based, or secret financial transactions, in order to increase national savings and accelerate economic growth. However, demand for the new system had been soaring due to issues such as corporate and political slush funds. The real-name financial system, which is considered one of the most monumental accomplishments of the former president, is considered to have taken economic justice in Korea to another level.

The Kim Young-sam administration declared the concept of globalization in 1994 and aimed for OECD membership. Korea finally acceded to the OECD in October 1996, thus joining the ranks of developed nations.

On one side, Korea’s sovereign credit rating jumped thanks to the accession and Korean enterprises and banking companies able to borrow money with greater ease from foreign banks, international agencies, etc. On the other side, however, a lack of preparation led to some burden on the domestic economy as all foreign currency, capital and trade transactions were instantly liberalized. Numerous experts pointed out at that time that severe risks would result from the opening of the capital market amid a worldwide economic downturn. They were not wrong, with Korean banks, after accession to the OECD, borrowing more and more money from their foreign counterparts, thus increasing the size of foreign

debt and giving rise to the financial fiasco of 1987.

IMF Bail-out: Moment of Truth

Those who were pessimistic about the accession were proven right. The Asian Financial Crisis of 1997 shook the domestic economy to its foundations, with the unprepared and hasty pursuit of global standards producing severe side effects across society.

The problem was that the government was simply content with past economic growth, as well as failing to deal with fast-changing international conditions, while the corporate and banking sectors went too far in expanding their business by taking out astronomical loans. The number of jobless people totaled 1.5 million, with companies cutting their employees' salaries one after another. Inflation affected households greatly, with Daewoo Group, which had recklessly diversified its business under the slogan of global management, going up in smoke in 1999.

A credit economy for stronger purchasing power emerged as a way of overcoming the crisis, but too many credit cards were issued, thus causing another problem. The government was able to pay back 100% of the IMF relief loan, totaling US$19.5 billion, in August 2001, and therefore exit the bail-out program. The then Kim Dae-jung government focused on the growth of venture firms, with these efforts laying a cornerstone for the country to become the information and communications technology (ICT) powerhouse it is today.

In 2011 and 2012, Korea broke the US$1 trillion mark in terms of trade volume, and becoming the world's eighth-largest trading nation in the process. The volume, which had exceeded US$100 million in 1947, quickly grew to over US$500 million in 1964, US$11.3 billion in 1974, US$100 billion in 1988 and US$500 billion in 2005. In the meantime, thanks to the government's export-centered economic development policy, the total exports from the country surged from US$0.1 billion in 1964 to US$1 billion in 1971, US$10 billion in 1977 and US$100 billion in 1995. In 2011, Korea recorded US$500 billion in cumulative exports, becoming only the 8th country in the world to do so.

Major export items also showed some change during the period. In the 1970s, textile goods took up more than 40% of total exports, followed by plywood (11.8%) and wigs (10.8%). Shoes and clothes were two of the main items in the 1980s. In the 2000s, semiconductor chips, petrochemical products, marine vessels, mobile phone and automobiles took the baton. The number one export destination for Korean exporters changed from the US to China in 2003, with emerging economies also increasing their importance. However, the material and component manufacturing and service sectors still have a long way to go, with the number of leading items remaining rather small. BK

Korean Economy
Chronological Table for the Past 30 Years

1983	Number of population exceeds 40 million
1988	President Roh Tae-woo takes office, National Pension System implemented, Seoul Olympic Games held and Korea becomes an IMF Article 8 Nation
1989	Overseas trips fully liberalized
1990	Market average exchange rate system introduced
1992	Samsung Electronics develops 64M DRAM for the first time in the world
1993	First civilian government organized, headed by President Kim Young-sam, real-name financial transaction system implemented
1994	Samsung Electronics unveils the world's first 256M DRAM, POSCO lists on the New York Stock Exchange (a first for a Korean corporation)
1995	Total exports surpass US$100 billion and per-capita GDP reaches US$10,000
1996	Korea accedes to the OECD, the predecessor of what is now SK Telecom kicks off commercial telecom services
1997	Hanbo Steel and Kia Motors go bankrupt, exchange rate fluctuation limit is expanded from 2.25% to 10% per day, request for a bail-out loan made to the IMF
1998	President Kim Dae-jung and the Government of the People were inaugurated, Depositor Protection Act is introduced
1999	Financial Supervisory Service is established, Daewoo Group goes out of business
2000	Financial Holding Companies Act and related enforcement ordinance are enacted, inter-Korean summit held for June 15 Joint Declaration, National Basic Livelihood Security Act is introduced
2001	IMF Bail-out program ends, Seoul/Incheon International Airport opens
2002	Korea-Japan World Cup is held
2003	President Roh Moo-hyun is inaugurated, FTA signed with Chile
2006	Comprehensive Real Estate Holding Tax is introduced
2008	President Lee Myung-bak comes into office, policy for low-carbon green growth and Four River Restoration Project are introduced
2011	Trade volume exceeds US$1 trillion
2012	KORUS FTA takes effect
2013	President Park Geun-hye inaugurated as the first female president of Korea, creative economy and economic democratization emerge as hot topics

ECONOMIC DEMOCRATIZATION

Needs of the Times

Economic democratization was a hot issue throughout the recent presidential election campaign in Korea. Both ruling and opposition candidates made related campaign promises in an attempt to win over voters. It was at this time that Clause 2, Article 119 of the Constitution, which relates to economic democratization through harmony among economic units, became a national topic of conversation.

These days, more than a few people are thinking that demand for democratic economy is rooted in the relations between big businesses and subcontractors. However, it has more to do with the failure of the Lee Myung-bak administration's so-called 747 policy, which stood for an annual average economic growth rate of 7%, a per-capita GDP of US$40,000, and joining the ranks of G7 countries.

The main culprit of the policy failure was the recent global financial crises that began in the United States and Europe, but there is no doubt that it was a tall order from the get-go. Korea's economic growth rate stood at just 2.3% and 0.3% in 2008 and 2009, respectively. While its aggressive fiscal policy pulled up the percentage to 6.2% in 2010, the figure fell to 3.6% and 2.0% in the following two years. With the exception of 2010, the rate never exceeded 3.0% during his five-year term.

A bigger problem is that the relative poverty rate, that is, the ratio of those earning less than 50% of the median income of the entire population, is rising. It climbed from 14.8% to 15.3% between 2007 and 2009. Though it fell slightly to 14.9% in 2010, the rate then returned to its 2008 level.

The wealth divide is considered to have derived from the former administration's economic policies being more friendly to major corporations. The government increased fiscal expenditure on the assumption that big businesses' growth would lead to larger profits and income on the part of small and mid-size enterprises (SMEs) and households, yet simply ended up snowballing government debt. National debt surged from 299.2 trillion won to 445.2 trillion during these five years. At the same time, economic indices related to households grew steadily worse. Household liabilities soared from 665.4 trillion won to over 1,000 trillion won in the same period, becoming nothing short of an economic time bomb.

The former president is a self-made man, one who rose to the top from the rank-and-file position of a construction company. As the head of state, he provided a blueprint for the future based on economic policy revolving around large corporations. However, people finally came to realize that this was merely a mirage, with politicians quick to take advantage of the situation by unveiling the concept of economic democratization. At present, the ruling and opposition parties are in disagreement regarding the scope of legislation related to economic democratization, with the latter in favor of tighter regulations on large enterprises and the former claiming that such restrictions not be too strict.

Under such circumstances, Deputy Prime Minister Hyun Oh-seok recently said, "It seems that some of the bills sub-

mitted to the National Assembly have the possibility of limiting business activities more than necessary," adding, "However, I believe that politics should not act as a drag on the economy in any event." The remark is interpreted as the government's desire to put a brake on excessive legislative activities. Expectations are being raised regarding what will become of this the provisional session of the National Assembly in June.

Economic democratization is similar to a creative economy; one of today's talking points, in that their goal is job creation through economic growth. The notion of a creative economy is to make new business and working opportunities by means of creativity at this time when it is becoming more and more difficult to overhaul the economic structure. At the center of the issue is the rate of employment, which is on a downward spiral.

President Park Geun-hye recently declared that the government would raise the country's employment rate to 70% by the end of her term. However, labor market insiders are claiming that the goal cannot be met without drastically reforming the current labor policy which is based on neoliberalism.

The employment rate reached 64.2% in 2012 after remaining around 60% for years. According to the Ministry of Employment and Labor, there needs to be 2.38 million additional jobs for it to top 70%. Allowing for the job creation capacity and decrease in working hours nowadays, the employment rate is expected to rise 1% a year for a while. This means the rate will stand at 65.7% in 2017. The government is planning to add a further 0.6% each year by expanding part-time employment and adding a further 2.2% by creating new jobs in the framework of a creative economy.

Still, the Korean Confederation of Trade Union criticized the plan as an attempt to increase the flexibility of the labor market under the guise of 70% employment. "The government is moving ahead with wage system changes characterized by the introduction of the ordinary wage, as well as in-house subcontracting laws designed to allow illegal worker dispatch, thus making job seekers more and more vulnerable.".

In fact, President Park Geun-hye recently said that the general public should not necessarily think of all part-time jobs as inferior positions. "What matters is not the numerical value, but the quality of job," said the Korea Labor Institute, adding, "The government has to present a more sophisticated and elaborate roadmap for job creation instead of being obsessed with numbers."

The government's concentration on job creation is because of the trend of jobless growth that first emerged in the 2000s. During this decade, the Korean economy grew at an annual average of over 5%, yet the employment growth rate did not surpass 1.5%. In 2003, the real GDP increased by 3.1% year-on-year, but the number of employees fell by approximately 30,000. Samsung Electronics relocated its mobile phone manufacturing facilities to Vietnam, while POSCO built its third steel mill in India. Furthermore, Kia Motors is running plants in six countries, including the United States, China and India. An increasing number of Korean companies are moving abroad in search of cheaper raw materials and energy resources, better incentives and new markets.

As of the end of 2007, approximately 70% of the 700 largest Korean companies operate overseas production facilities and offices. According to the Ministry of Strategy and Finance, overseas direct investment, which recorded US$5.94 billion in 2003, quadrupled in the following four years.

It is inevitable that some sectors decline as the industrial structure changes, and the number of required workers cannot but decrease as automation and mechanization increase. The real problem is that big businesses are refraining from hiring new workers. Currently, large enterprises with at least 300 employees account for just 8% of total employment, with the figure standing at only 3% for the top 30 companies in the country. "Major corporations in Korea maximize their employment elasticity by using a dual strategy, i.e. providing regular employment to key members but indirectly employing others in the form of part-time hiring, subcontracting, etc.," said a local economist.

Experts are calling upon the government to strengthen the ratio of the service industry by 10 percentage points in order to create jobs and deal with structural problems in the labor market. Specifically, they are claiming that regulations be eased in the legal, accounting and financial sectors, which have higher employment effects than GDP growth, as well as social service sectors such as medical, welfare and old-age care by tearing down entry barriers. The government can take a leaf from the example of Germany, which raised its employment rate from 64.6% to 70.2% through the Hartz Reform of 2003.

INTERVIEW WITH LAWMAKER

"Big Businesses Need Not Be Branded as Evil"


Lawmaker Kim Yong-tae

Ruling Saenuri Party lawmaker Kim Yong-tae, who is a member of the National Policy Committee of the National Assembly, is one of the most outspoken opponents to bills regarding economic democratization. During a recent interview with Business Korea, he said, "Economic democratization should cover the real-life situations of the Korean economy based on hard facts, not the sentiment of the general public," stressing, "Such bills cannot be a subject of compromise or political bargaining."

You are one of the politicians representing the middle class and a member of the ruling party. Why do you stand against the Park Geun-hye government's drive for democratic economy?

There seems to be some misunderstanding. I do not oppose the cause of economic democratization and have no reason to do so. What I emphasize is that economic democratization has to comply with the goals of the Korean economy. In other words, it must help cope with jobless growth and the wealth divide, which are two of the greatest challenges to the national economy, while contributing to economic revitalization and enhancing competitiveness. We need to thoroughly go over the bills and revise and nullify them if it is necessary to do so.

At the same time, the National Assembly must stick to its job as a counterbalance to the executive branch, while also reconfirming the principle of legislation. It should not let the administration interpret the law arbitrarily, in conformity with the principle of legality, so that every economic agent can get an accurate grasp of the regulations.

In this context, economic democratization has to handle not only the feelings of the people but the reality of economy. What I intend to do is approach the cause from an economic, not political, perspective.

You have tabled a revision to the Monopoly Regulation and Fair Trade Act in order to ease the burden of the corporate sector. What is the background of the proposal?

In short, the revision bill is to look intoIn short, the revision is to look into not whether inter-company transactions hurt the market order, but whether such practices accelerate the over-concentration of economic power. The Fair Trade Commission is also in favor of the draft because the current act has some loopholes.

Still, we should also be wary of the situation in which restrictions on inter-company transactions for economic power concentration result in excessive administrative power and the business reality taken out of consideration.

How many of your colleagues have the same view?

At first, the majority of lawmakers could not understand my view. However, the number of supporters has been increasing with time, realizing it is not that I was blindly taking chaebols side. The bills, particularly the Fair Trade Act and those related to the financial sector, require in-depth, professional knowledge. My peers who had a hard time understanding the bills due to the high level of difficulty are now increasingly opposing reckless economic democratization.

In addition, the ruling party itself is appearing to gradually change its stance that economic democratization should be pursued no matter what. More and more members are claiming that some of the bills be modified in view of reality.

It seems that you have starkly different opinions with the opposition parties. What are you doing to reach a consensus with them?

The coordination will not be easy but it makes no sense that the bills can be subject to political bargaining or compromise. I am going to keep my lean-forward stance, but there is still no doubt that we should correct the controversial parts of the bills in light of the economic reality.

All of the proposed bills have the same ultimate goal of economic reinvigoration and job creation. What do you think is the right direction of legislation?

What I mean to do is deal with hard facts based on reality. These days, discussions surrounding democratic economy are obsessed with the fixed idea that big businesses are evil. A cool-headed and hard-edged approach is what I am advocating, and I believe it is the right attitude as a lawmaker. BK

CREATIVE ECONOMY

Focusing on Innovative and Future-oriented Growth

The Korean government has announced its master plan for a creative economy, and which is characterized by efforts for the creation of new markets and decent jobs through the combination of creative ideas and information and communications technologies (ICT).

A briefing session was held on the morning of June 5 in a government complex located in Seoul, attended by the Minister of Science, ICT and Future Planning Choi Moon-ki and vice ministers of related authorities. The plan, subtitled 'Measures for Establishment of Creative Economic Ecosystems,' was finalized in the preceding day's Cabinet meeting chaired by Prime Minister Jeong Hong-won.

"The catch-up strategy that has led our economic growth during the past 40 years has reached its limit, with emerging economies speeding up their growth and the global economic crisis exacerbating these days," said the minister, adding, "The new plan is to shift the paradigm of economic growth from imitation and application to innovation based on the creativity of the Korean people." He added that the plan aims to realize a new era of happiness and well-being by means of economic creativity along with three goals: the creation of new markets and jobs through innovation; enhancement of global leadership in the international economic arena; and realization of a society where creators are respected.

At the same time, the ministry made public the following six action plans: establishment of business-friendly ecosystems in which creativity receives reasonable compensation; promotion of venture firms and small and mid-size enterprises (SMEs) for higher global competitiveness; creation of new growth drivers for the exploration of new markets; fostering of ambitious and creative human resources with a challenging spirit; strengthening of scientific and ICT competence that form the foundation of a creative economy; and joint endeavor by the people and government for the development of a creative economic culture.

Paradigm of Financing Shifted from Loans to Investment

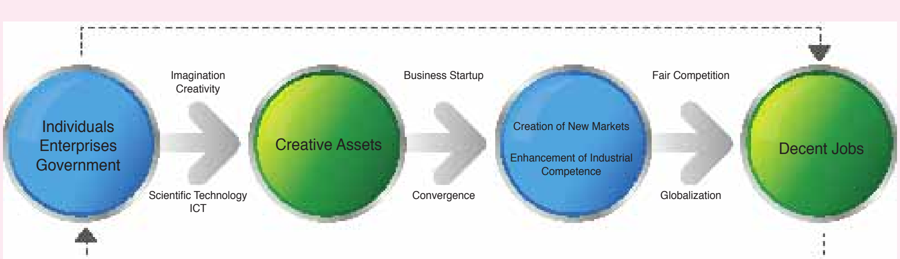
The government aims to focus more on the national investment pool than the loan pool down the road in a bid to make it easier for start-up firms to receive financing in return for their creative ideas and business potential. Specifically, it is planning to facilitate angel investment and crowd funding, while raising the Future Creation Fund to at least 500 billion won.

In addition, it aims to ease stock market and M&A-related regulations in order to help investors make more aggressive investments. Allowing for the fact that one-man businesses have a crucial role in a creative economy, it is offering more financial support than before for R&D, management, facility expansion and so forth, while encouraging startups by allowing more college professors and personnel in government-funded research institutes to work in the private sector.

The government will also work on the National Patent Strategy Blueprint in order to turn creative ideas into lucrative patents. To this end, it will raise investment funds totaling 200 billion this year so as to give impetus to inventions. More information, legal and consulting assistance will also be provided in the intellectual property sector.

Assistance for Overseas Market Exploration by Venture Firms and SMEs

Exemplary procurement items will also be selected by the government so as to help technology-oriented venture companies and SMEs find their way into overseas markets. Such companies are expected to be able to enter public procurement and overseas markets with greater ease thanks to the new system. Consulting and networking support will be given to them, along with infrastructure-related assistance so that they can aim at the global market from the very first stage of their business. The IT Support Centers abroad and the Korea Venture



Creative Economy Ecosystem
Source: Ministry of Science, ICT and Future Planning

Center will function as support channels for those operating in strategic export markets such as China and the United States.

Creation of Future Growth Drivers by Raising Major Funds

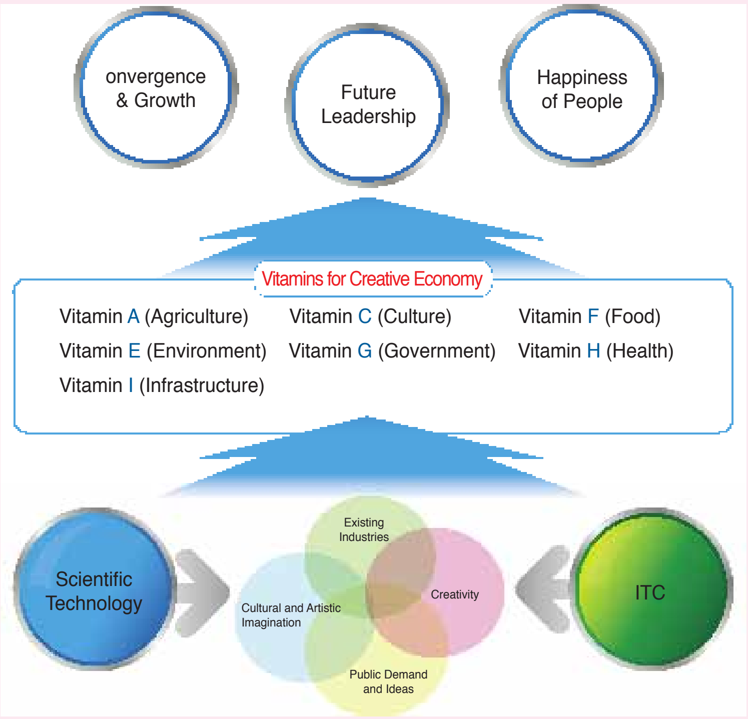
In the meantime, the government will kick off the Creative Economy Vitamin Project, which covers the agricultural, cultural, environmental, food, public administration, infrastructure and public safety sectors, in an effort to revitalize them by dint of science technology, ICT and close inter-ministerial cooperation.

During the course of the undertaking, research and solution development (R&SD), will be pursued in order to better cope with social demands and problems, while various regulations are to be abolished. The creation of new industries based on software and the Internet are also to be accelerated as well. Software education is to be shored up and new industry clusters built so as to link the sector with regional industries for the development of software-based convergence technologies, while a software policy research institute is also to be established. Furthermore, the Cloud Computing Development Act is to be enacted so as to grow cloud computing and big data into future growth drivers, while a big data analysis and utilization center is to be established, as well as more than 5,000 information security engineers and experts to be trained by 2017.

Large-scale funds are to be raised in order to strengthen the cultural contents industry. For example, the Digital Korea Fund and the Wipung Dangdang Korea Fund have been established to assist contents creators and producers.

The advancement of key technologies in the biotech, nano science, medical and environmental sectors is to be backed up for the development of genome analysis and treatment techniques, graphene devices, carbon capture and sequestration (CCS), etc. In addition, the exporters of mid-size satellites, advanced nuclear reactors, unmanned aerial vehicles, etc., will receive more investments than before.

In doing so, the government is planning to seek new industrial and business opportunities through the long-term prediction of the future and speed up the development of related core technologies.



Creative Economy Vitamin Project
Source: Ministry of Science, ICT and Future Planning

**The Minister of Science, ICT and Future Planning Choi Moon-ki is announcing the Action Plans for the Realization of Creative Economy.

Enhancement of Scientific and ICT Competence Based on Creative Economy

Furthermore, the administration is to increase the ratio of its investment in basic sciences to total R&D investment from 36% to 40% by 2017, while launching future-oriented venture research and innovation-centered R&D projects and providing greater support to researchers who succeed in commercializing their creations. Science Technology Innovation Centers are to be put into operation in emerging countries in this context so as to better open up overseas markets through the utilization of commercial-scale technologies.

In order to enhance the technical management competence of local governments, technical planning and management agencies are to be organized along with Regional Innovation Clusters that reflect region-specific characteristics. Sci-Biz Funds are to be provided for the same purpose in order to nurture specialized industries in such regions. Colleges specializing in the development of science technologies and industrial-academic cooperation are to be given a bigger role as leading innovators, while the Technology Licensing Offices' role is to be strengthened in order to maximize commercialization.

Primary and secondary school textbooks are to be reedited so as to publicize the concept of a creative economy, while educational content will be developed for the convergence-based cultivation of human resources. The idea is to include hands-on and inquiry-based educational elements into the curricular of mathematics, sciences, technology, engineering, arts, etc. Roughly 35 types of new educational content are to be created by 2017 and applied to all elementary schools nationwide.

CONSTRUCTION INDUSTRY

Enjoying Renaissance Abroad

Last year, Korean construction companies won contracts totaling US$64.9 billion in overseas construction markets. This is the second-highest figure following that achieved in 2010, when they clinched US$18.6 billion-worth of orders for nuclear power plant construction in the United Arab Emirates alone. The total increased by more than US$25 billion when compared to 2007.

This year, the total value is estimated to reach approximately US$75 billion. "The possibility of a rapid drop in oil prices is not high this year, unlike during the financial crisis in 2008, and thus Middle East countries are expected to continue placing new orders," said the Ministry of Land, Infrastructure and Transport, adding, "At the same time, an increasing number of business opportunities are likely to be found in emerging markets such as Africa and Latin America."

The overseas operations of Korean builders have a history spanning 40 years. Samwhan Corporation obtained an order to construct a 164km-long expressway between Kaiba and Al Ula in Saudi Arabia in 1973; becoming the first Korean construction firm to set foot in the Middle East market.

In the following decade, the amount topped US$10 billion for the first time. The total value surged from 1975, thanks to oil money, to reach US$13.7 billion in 1981 and turn Korea into the world's second-largest construction exporter following the United States. In 1983, Dongah Construction Industrial won the US$3.3 billion-worth Great Manmade River Project in Libya, the largest single construction project in the world at that time.

Korea's construction industry enjoyed a huge boom in the 1980s as the 1986 Asian Games and the 1988 Olympic Games led to the fast expansion of the domestic market. The total contract amount of private construction works in the country skyrocketed from 6.5 trillion won to 26.3 trillion won between 1985 and 1990, and went on to exceed 70 trillion won in 1996.

However, the focus on quantitative growth resulted in painful experiences, i.e. the Seongsu Grand Bridge and Sampung Department Store building collapses in 1994 and 1995, respectively. It was at this time that the Construction Business Act was introduced in order to toughen the penalties for those involved in shoddy construction. To compound the matter, the number of insolvent companies in the industry jumped from 291 to 522 between 1997 and 1998 due to the Asian Financial Crisis in 1998. The figure rose to 1,843, with over 420,000 construction workers losing their jobs in 1998 alone.

Nevertheless, the industry fought to save itself, qith the government lending a helping hand in order to recover the total value of orders to over 100 trillion won. "At that time, local construction firms began to aim for innovation and improve their business productivity and profitability, striving to become more future-oriented," said the Construction Association

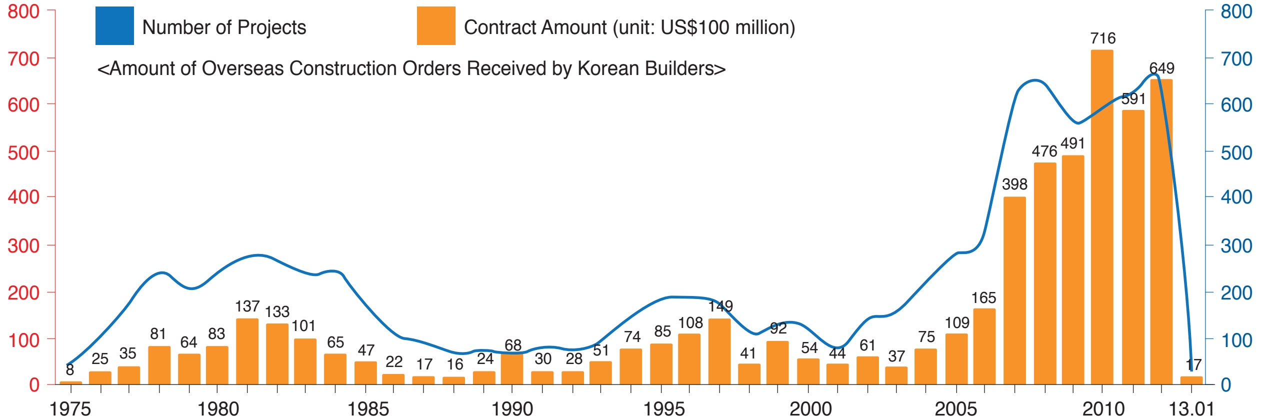
of Korea.

At present, Korean builders are enjoying a renaissance around the world. Their combined order backlog, which had remained below the US$10 billion mark for most of the years from 1982 due to the recession in the Middle East market, has increased at a rapid pace since 2005. Overseas orders obtained these days are quite different both qualitatively and quantitatively from those of the 1980s. Customers are not limited to Middle East nations, while the types of construction works are much more advanced. The ratio of plant engineering has also surpassed 70% since the late 2000s, while the level of profitability has risen to be almost equal those of projects in the domestic market.

There still remain some obstacles to deal with though, in spite of stellar accomplishments. Experts are pointing out that local construction companies need to further diversify their target markets, construction types and business partners. Their reliance upon the Middle East is still pretty high, although significant improvement has been made. As of 2012, the region accounted for 57% of the total value of orders received, with Asia accounting for 30%.

By construction type, plant construction represents 61% of the value, with civil engineering and general construction segments increasing their shares. The total amount in the two segments increased from US$13.3 billion to US$22.9 billion between 2011 and last year, signaling the possibility of construction type diversification. However, the added value of overseas plant construction projects is considered to be less than expected due to a lack of original technologies.

Still, there is room for improvement. 428 Korean construction firms won 559 overseas orders in 2010, 80% of which were obtained by the top 10 companies. “Urgent problems in the industry will be able to be properly dealt with by nurturing human resources on a large-scale and providing the latest market information in a timely and accurate manner to both industry leaders and their smaller counterparts,” explained the International Contractors Association of Korea.



Source: Construction Association of Korea

SHIPBUILDING INDUSTRY

China Outperformed Korea Last Year

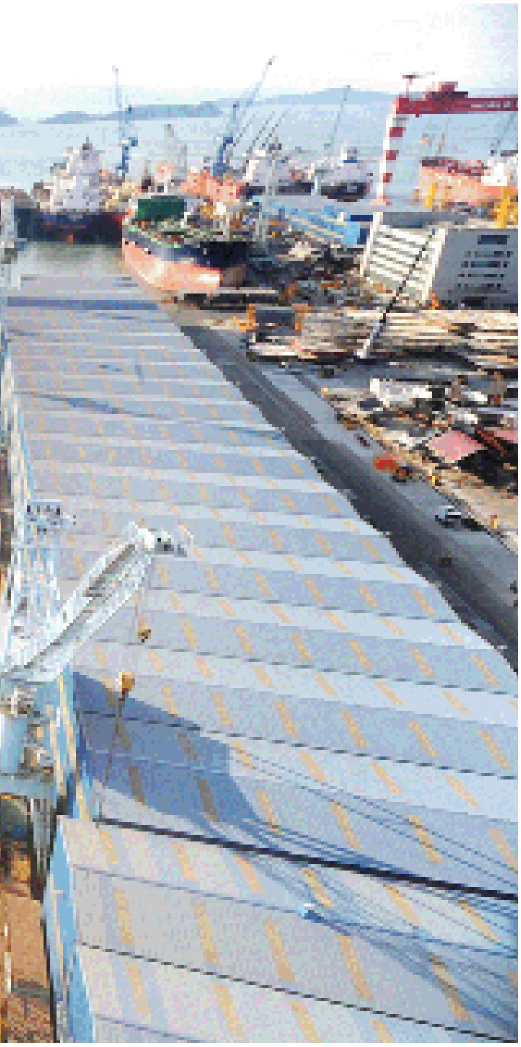
Korea broke the US$1 trillion mark in terms of trade volume for the first time in its history on December 5, 2011, when Samsung Heavy Industries reported to the Korea Customs Service that it exported two units of drill ships at a combined price of US$1.2 billion. This showed how significant the shipbuilding industry is for the export-oriented economy of Korea as a whole.

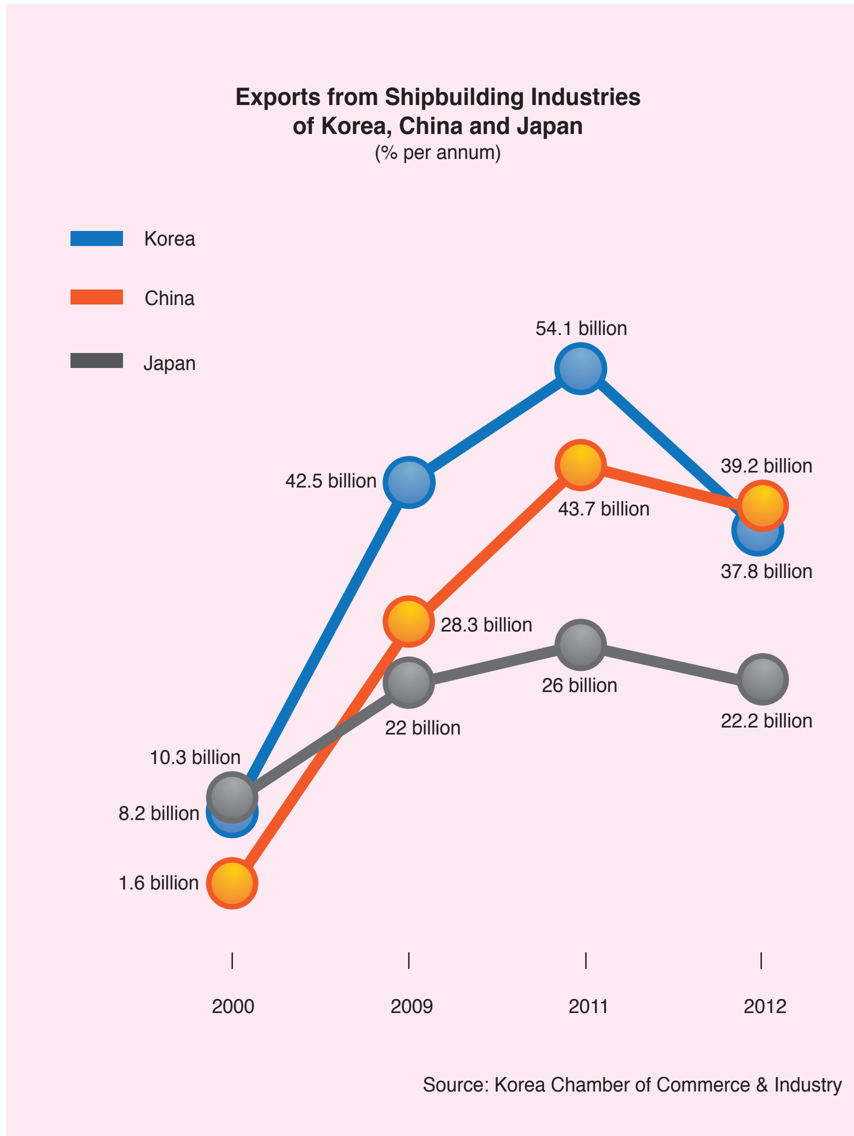
The country's shipbuilding sector entered the international arena as a strong competitor back in the early 1980s. At that time, Daewoo Shipbuilding and Samsung Heavy Industries completed large-scale shipyards backed by the government's industrial promotion policy. Starting from the latter half of 1986, the drop in exchange rate began to have a positive effect on the industry, along with low oil prices and interest rates. The following year, the international shipbuilding market picked up and the majority of new contracts were won by Korean shipbuilders, raising their global market share to 30.2%.

Ever since, advanced economies like the United States and the European Union have tried to keep Korean shipbuilders in check. Their Japanese counterparts began to raise their guard against them but were unsuccessful due mainly to labor-management conflicts. Still, Korea's shipbuilding industry fell into stagnation in 1987 owing to delivery delays caused by labor disputes, an increase in labor and manufacturing costs, and the appreciation of the local currency. The recession resulted in a government-led industrial restructuring plan in 1989.

During the 1990s and 2000s, local shipbuilders focused on the development of high value added vessels such as LNG carriers and drill ships, rather than freighters and oil tankers, in order to tide over the crisis and become the number one in the world. For example, Korea has maintained its leading spot in the drill ship segment for many years.

Exports from Korean shipbuilders reached US$9.7 billion in 2001, surpassing those from Japan for the first time by a margin of US$1.3 billion. Since then, they have dominated the global market. However, they were overtaken by Chinese rivals last year, with Chinese





shipbuilders taking advantage of much cheaper labor costs and the government's support.

According to the Ministry of Trade, Industry and Energy, exports from the Korean shipbuilding industry totaled US$37.8 billion in 2012, while those from China amounted to US$39.2 billion. Korea's market share was 35% the same year, just 1.7 percentage points higher than China's.

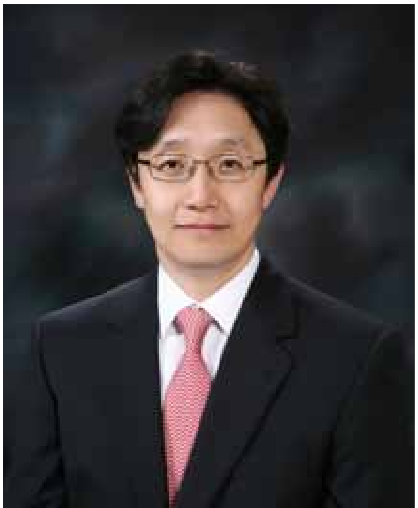
China's shipbuilding sector rose to number one in spite of its technological inferiority and global economic downturn thanks to government support for high value added ship and offshore structure exports. In contrast, financial companies in Korea are refraining from providing loans, thus exacerbating the financing difficulties of Korean shipbuilders. The trend of payment in the global shipbuilding sector is also shifting from 20% installment to heavy tail; in which 60% of the payment is settled at once after 10% of it is paid four times prior, meaning financial assistance is becoming more and more indispensable.

Furthermore, the Korean shipbuilding industry's exports decreased by 30.1% between 2011 and 2012 in the wake of the collapse of Lehman Brothers and financial turmoil in Europe; which accounts for 85% of Korean shipbuilders' export destinations. Under the circumstances, the industry fell five notches to sixth in regards to export items between 2009 and 2012, and recorded a negative growth of 27.54% last year for the first time since the Asian financial crisis in 1999.

At present, Korea's shipbuilding industry is sandwiched by those of Japan and China, which are showing excellent performance in the high value added and low-price vessel segments, respectively. The Ministry of Land, Infrastructure, Transport and Tourism of Japan recently announced new strategies to help local shipbuilders enter the maritime industry by offering financial support and training engineers and technicians. BK

COMMENTARY

Coordinated Efforts for a Strong Maritime Nation



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The shipbuilding and maritime industry can be roughly divided into shipbuilding, offshore plant construction, operation of maritime vessels and offshore plants, and ship financing. All segments should thrive together because an imbalance in the industry leads to a collapse of the entire sector. Fortunately for Korea, the maritime and shipbuilding industry has continued solid growth for decades, with current conditions being favorable. Specifically, its shipbuilding segment is second-to-none worldwide, with the shipping segment ranked fifth in the world. The country is also distinguishing itself these days in terms of maritime infrastructure.

Even in the late 1980s, when I was a college student majoring in marine engineering, people said that the shipbuilding industry was facing a crisis, with industrial and academic figures gathering together at my alma mater to collect their thoughts regarding how to tide it over. My seniors succeeded in getting over the crisis, allowing the industry to grow into what it is today, and overtaking Japan, whose industry focused only on industrial efficiency and standardization on the assumption that the sector had already reached its maturity. In retrospect, the approach began to act as an obstacle to Japan's shipbuilding industry in the 1990s and 2000s, hampering the island nation from meeting new demands and paradigms in the sector.

In the early 2000s, I worked for a software company in the United States and visited Korea, Japan and China twice to present its products. I remember I felt a lack of enthusiasm hanging heavy on workers in Japan's shipyards at that time. Most employees I met there were in their 50s and looked nervous regarding the possibility that new software could replace them. They were afraid of new technologies and unwilling to create something new. Meanwhile, in shipyards in Korea, I met a lot of young and passionate engineers in their 30s and 40s, who were eager to solve problems by means of innovate technologies and software. Some were even complaining that their companies were not purchasing enough software licenses. In China, in the meantime, I also met many young, skillful engineers, yet it appeared as if they did not know how and where to employ their software tools.

I am convinced that such an atmosphere reflects the present and the future of the shipbuilding industries of these three nations. In Japan, experienced engineers have already retired and the shipbuilding and marine engineering departments of colleges have been consolidated, thus hindering the supply of personnel. Under such circumstances, Japan appears unlikely to regain the global number one spot. Meanwhile, those Korean workers who were young engineers full of get-up-and-go are now playing a pivotal role in the country's shipbuilding sector, while their juniors are currently refining their knowledge at 40 or so colleges around the country. When it comes to China, it seems that the government-led growth of the sector is rather slowing down its future growth, and that much more time is needed before the country's shipbuilding industry, in which ship design and construction are separated, is in sync with the current trends for eco-friendliness and high efficiency. In short, Korea's shipbuilding industry is expected to remain number one for the time being.

However, as I stated above, the prosperity of the shipbuilding segment alone does not suffice. Major shipbuilders have to cooperate more closely with the government and their smaller partners in order to accelerate the growth of the equipment industry. Long-term and autonomous technological development will be the most important factors during this time. At present, the technological independence ratio of Korea's shipbuilding equipment industry stands at just 60%, with the figure falling to below

30% when equipment for offshore plants is taken into consideration. Industry participants need to decrease their reliance on imported technologies and equipment rather than blindly following shippers' demands. Leading shipbuilders should also set out to persuade international shippers and support Korean entities' activities in international organizations in this context. At the same time, they should provide technical support to small and mid-size shipbuilders, not limiting their assistance to short-term financial gains. Smaller enterprises have their own merits and strong points in certain vessel types. As a result, large shipbuilders must help them maximize their comparative advantage and encourage them to work on new and innovative technologies.

The shipping industry must also seek new growth opportunities. In order for Korea to take a bigger portion of maritime transportation profits, which totaled US$38.5 billion as of the end of 2012, there have to be a larger number of local shippers. Approximately 20% to 30% of this total is currently paid to foreign shippers as charter fees, meaning that Korean companies are not being compensated that much for labor.

Another critical factor for the development and advancement of Korea's shipbuilding and marine industry is ship financing. It appears that Korean banks are concentrating on growing nowadays, yet I believe portfolio expansion is more important. Their European counterparts, which account for 70% of the global ship financing sector, are earning massive profits from direct and indirect investment, and insurance sales, etc. Asian banks, including those from Japan, are also focusing on the sector's huge potential.

The marine and shipbuilding sector has fulfilled its role as a backbone industry of Korea. However, for it to further prosper in the future, the government, industry and academia must make dedicated and coordinated efforts. Let's say there is a restaurant that is famous for its cold noodles. What if it changes its main dish to pasta, saying that cold noodles are old-fashioned? The answer is obvious. It could catch neither. I hope that Korea's marine and shipbuilding industry does not make a similar foolish mistake.

STEEL INDUSTRY

Waiting for Another Takeoff

Korea's steel industry supplied steel products for 40 million units of mid-size vehicles and 3,000 vessels to the country's automobile and shipbuilding sectors during the last 10 years, thus fulfilling its role as a key industry. It is undoubtedly true that the steel industry has made a huge contribution to Korea becoming No. 2 in the world in terms of shipbuilding tonnage and 5th in automobile production.

Korea joined the ranks of steel-making countries in 1970, when the Steel Industry Promotion Act was established in order to complete the first blast furnace of what is now POSCO. Its crude steel production volume soon surpassed one million tons and skyrocketed to 68.519 million tons in 2011, turning the country into the world's sixth-largest steel-manufacturing nation. Per-capita crude steel consumption amounted to 1,161kg in 2011, the highest worldwide, followed by the United States, Japan and China.

The Korean government, which succeeded in coping with problems such as the structural imbalance between iron making, steel making and rolling, obsolete manufacturing facilities, and a lack of economy of scale, began to pursue qualitative growth of the industry from the mid 1980s.

During the 1970s and 1980s, advanced economies' steel manufacturing sectors went through large-scale restructuring, a series of corporate bankruptcies, and facility shutdowns due to the global economic recession. Meanwhile, that of Korea continued increasing its output, going for qualitative and quantitative growth at the same time in order to deal more effectively with its competitors. The rapid growth of the construction, automobile, machinery and electronics industries that continued from the 1980s to 1990s assisted the development of the sector as well, while the predecessor of POSCO built additional steel mills in Gwangyang City, South Jeolla Province and electric furnace manufacturers, thereby boosting production capacity.

However, their fast growth led to trade conflict, with the increase in domestic demand slowing down. It was at this time that they turned their attention to the export of high value added products, diversification of export destinations, development of innovative technologies, and new types of products such as special steels.

The industry underwent structural reorganization until the mid 2000s due to intensifying competition both at home and abroad. This was triggered by the Asian Financial Crisis in late 1997. No less than 11 steel manufacturing companies, including Hanbo Steel, Kia Specialty Steel and Sammi Specialty Steel, went under between 1997 and 1998, with crude steel production facilities with a combined capacity of five million tons shut down.

Finally, the government stepped in to save the industry and seek new growth opportunities in the fast-changing global environment. Hanbo Steel was acquired by INI Steel, which is now Hyundai Steel, in 2004; and marking the end of long inter-firm restructuring. Customs duties in the industry were abolished in January 2004, while the steel industry of China quickly emerged to accelerate the reshaping of the industry.

At present, Korean steelmakers are exerting great efforts for technological advancement. POSCO completed the world's first FINEX facilities in 2007, while Hyundai Steel finished construction of its second furnace to become the second steel manufacturer in Korea capable of integrated production.

An increasing number of these companies, including POSCO, Dong Kuk Steel Mill, Dongbu Steel and Hyundai Hysco, are heading to overseas markets for cost reduction and capacity expansion, with local steel demand at its peak and India and China quickly raising their competitiveness. As of 2012, POSCO ranked fifth in the world in terms of steel production, with Hyundai Steel taking 17th spot. Six of the top 10 on the list were Chinese companies. POSCO is currently building manufacturing plants in Indonesia, Turkey and India, while Dong Kuk Steel Mill is setting up a factory in Brazil in conjunction with POSCO. Dongbu Steel is about to start local production in Thailand and Hyundai Hysco is constructing plants in Turkey and India.

"Some people are expressing concerns that Korea's steel-making industry could be sandwiched between those of advanced and developing economies, but it has overcome a series of difficulties such as the first and second oil shocks in the 1970s, the Asian Financial Crisis of 1997 and the recent global financial downturn," said the Korea Iron & Steel Association, adding, "We believe that our ability earned through such experiences will lead to another renaissance in the industry." BK

Crude Steel Production Volume as of April 2013 (unit: 1,000 tons, %)

	2012.4	2013.4	Year on Year	Cumulative Total (from January to April)		
				2012	2013	Year on Year
Global Total	130,506	132,116	1.2	511,327	521,283	1.9
North America	10,682	10,068	-5.7	42,170	39,802	-5.6
United States	7,829	7,258	-7.3	31,040	28,764	-7.3
EU	14,785	14,066	-4.9	58,682	55,341	-5.7
Germany	3,598	3,564	-0.9	14,444	14,378	-0.5
Asia	84,603	88,537	4.7	329,572	349,172	5.9
Korea	5,869	5,497	-6.3	23,178	22,076	-4.8
China	61,408	65,650	6.8	238,057	258,152	8.4
Japan	9,077	9,170	1.0	35,642	35,807	0.5
India	6,394	6,620	3.5	25,662	26,636	3.8
CIS	9,570	8,909	-6.9	37,856	35,991	-4.9
Russia	5,844	5,591	-4.3	23,931	22,747	-4.9
Latin America	4,071	3,947	-3.0	15,876	15,051	-5.2
Brazil	3,013	2,965	-1.6	11,738	11,310	-3.6

Source: World Steel Association (combined output of 63 countries)

PETROLEUM / PETROCHEMICALS INDUSTRY

Topping List of Export Items Last Year

Contrary to common sense, petroleum products became the number one export item of Korea last year, and setting a new record at the same time. It is quite meaningful that Korea has turned petroleum products into its major export item in that Korea is a non-oil producing country.

In 2012, exports of such products totaled US$56.2 billion, increasing by 8.9% from a year earlier, and accounting for 10.3% of the country's total exports. This was followed by the semiconductor (US$50.4 billion), general machinery (US$480 billion) and automobile (US$47.2 billion) sectors. "It is no stretch to say that oil-related products contributed the most to Korea becoming the world's eighth largest trading country last year and breaking the US$1 trillion mark in terms of total exports for the second consecutive year," said the Korea Petroleum Association.

The petroleum industry of Korea achieved US$10 billion exports in 2004 and increased this amount to US$20.4 billion in 2006, US$37.6 billion in 2008 and US$51.7 billion in 2011, and thereby putting its name on the list of the country's 10 major export sectors each year since. GS Caltex won the US$25 Billion Export Tower Award, which is the highest prize, on Trade Day last year, while SK Energy and S-Oil each received the US$20 Billion Export Tower Award, and Hyundai Oil Bank garnered the US$8 Billion Export Tower Award.

This fast growth can be attributed to the government's systemic support and the industry participants' dedicated efforts. The sector began to take shape in 1972 when the government launched its second five-year economic development plan and put into operation the national petrochemical complex at Ulsan City. Since then, it has supplied petroleum products essential for industrialization; positioning itself as a key industry of Korea.

In the 1980s, investment in the sec-

tor skyrocketed, making it one of the main export industries along with the semiconductor, steelmaking, shipbuilding and automobile sectors. The oil refining industry has received massive investment since the mid 1990s for facility improvement and export enhancement. Exports from the sector recorded US$5.8 billion in 1996, which was equivalent to 4.7% of the national total. Capital investment reached no less than 11 trillion won during the last five years as companies equipped themselves with advanced oil refining facilities in which bunker C oil is used to produce petroleum, kerosene and diesel products.

At the same time, oil companies have made aggressive investments while striving to diversify their export destinations. For example, exports to emerging markets such as Indonesia increased by roughly 72% year-on-year in 2012, while those to China, the largest export market, decreased 18% during the same period.

The petrochemical industry's exports are also on the rise thanks to its aggressive investment and rising demand in emerging nations. In China, demand for petrochemical goods such as resins and

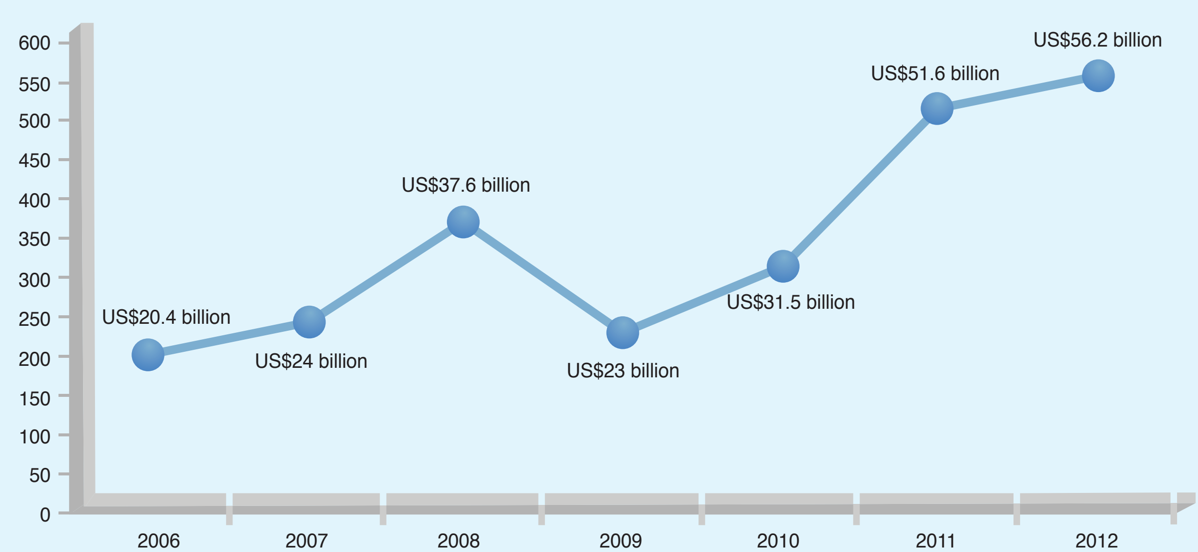
rubbers has soared by an annual average of 10.8% since 2001 to amount to 130 million tons in 2011.

Still, Korean petroleum product manufacturers are facing a challenge as their competitors in the Middle East are expected to be engaged in price dumping in order to keep them at bay, while the United States and Canada are planning to expand shale gas production. Another potential hurdle is the issue of greenhouse gas reduction, although the Kyoto Protocol is currently at a stalemate due to the global financial crisis and the absence of leading economies like the United States and China.

"The construction, shipbuilding and automobile industries are likely to go into a recession sooner or later, but the petrochemical sector is expected to enjoy a boom for the time being as the domestic economy recovers and exports to emerging markets including China increase," said the Hyundai Research Institute in a recent report.

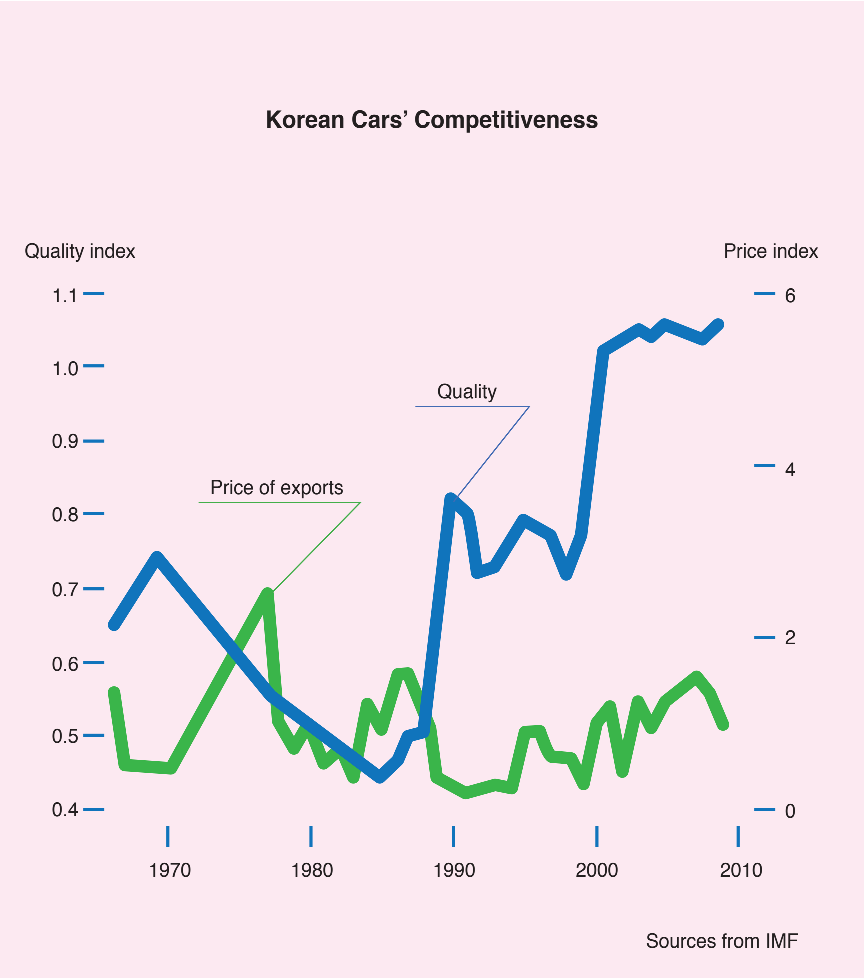
"However, the industry will have to work on innovative technologies to provide against the era of natural gas, while making greater efforts to produce high value added products in order to deal with cheaper ones and build overseas manufacturing facilities in regions where raw materials can be procured at lower costs," it advised, adding, "Furthermore, the petrochemical sector, which is one of the targets of greenhouse gas-related regulations, has to try to cope with environmental problems." BK

<Exports of Petroleum Products from Korea>



AUTOMOBILE INDUSTRY

Becoming World's 5th largest car producer



It has been 110 years since the automobile was first introduced in Korea. King Gojong imported two Cadillacs from the United States in commemoration of his 40th anniversary on the throne in 1903. The first 'Korean made' car was the "Shibal"; born in a tent as a remade version of the US Army's old Jeep in 1955. Government support began in the late 1960s, with the nation's first mass-produced car "Pony" developed in 1975. This car was first exported to Ecuador in 1976.

The nation's car exports became active in the 1980s. Hyundai Motor's 'Excel' sold roughly 200,000 units in the United States. Since then, Korea's auto industry has continued to grow, with it now the world's fifth largest car producing country.

According to the Korea Automobile Manufacturers Association (KAMA), Korea manufactured 8.2 million cars in 2012, accounting for 5.4% of global production. Car exports saw revenue of US$ 71.8 billion during the same year. Korea has been in the world's top five in terms of car production for eight consecutive years, with China the world's number one for four consecutive years, the US as the world's number two, and Japan number three.

Indeed, the auto industry is leading the Korean economy as an export strategic industry. In 2011, roughly 67.7% (3,151,708 units) of all Korean made cars were exported, a 12% increase year-on-year, and nearly double that of 2000 (1,676,442 units).

In 2010, the auto industry accounted for 11% of national manufacturing and 10.4% of national added value.

The auto industry has a big effect on the upstream and downstream industries, and ultimately creating a huge number of new jobs. According to Statistics Korea and The Bank of Korea, the auto industry had roughly 1.75 million directly and indirectly-employed workers nationwide in 2010. This is nearly 7.3% of the nation's workers (23.83 million), meaning one in seven families were engaged in the auto industry when assuming that the nation's 50 million population belonged to families of four members.

It is obvious that the auto industry has made both quantitative and qualitative growth. However, there are still challenges to be overcome in regards to sustainable growth. Experts point out the Korean auto industry has enjoyed some "reflective benefits" caused by crisis in the Japanese auto industry. Japanese car makers suffered from parts recalls in the US market, a devastat-

ing earthquake, and floods in Thailand where many of them have production bases.

Professor Kim Pil-soo of the Automobile Department of Daelim University said, “Now it is time for us to compete in the global market by ourselves, without help from the external environment. The traditionally powerful car makers from Europe are expanding their market dominance in Korea, while US cars are emerging from their former negative image by pushing the envelope in regards to fuel efficiency, emissions and design.”

The first thing that the Korean car makers have to do is to upgrade their image from low and middle-price brands to that of premium brands. Furthermore, in order to imprint the image of a premium brand on global consumers and maximize profits, Korean car makers need to develop source technologies for core parts, an area which is known as a weak point. The auto industry demands the government reduce tax rates and simplify related laws and regulations in order to stabilize domestic consumption.

The recently-spotlighted shorter working-hours and labor issues are other big obstacles.

Professor Lee Ji-man of Yonsei University said at a recent event, “If the shorter working-hour policy limits working on holidays, the auto industry will suffer from deteriorated working-hour flexibility, increased fixed expenses for new facilities, lowered capacity, and increased production costs. Furthermore, additional employment will increase labor costs, which will result in weakened cost competitiveness.”

The auto industry also needs to strengthen the strategic alliance among competitors. Professor Kim Soo-wook of Seoul National University said, “Korean car makers need an open innovation strategy in order to improve sluggish demand growth and sustain competitive power. It will help reduce R&D expenses and improve the problem of a shorter product life cycle.”

Some global car makers have recently turned to strengthening strategic alliances with competitors. Such an attempt for open innovation can create a new level of competitive power by combining technological power and other merits. BK

ICT INDUSTRY

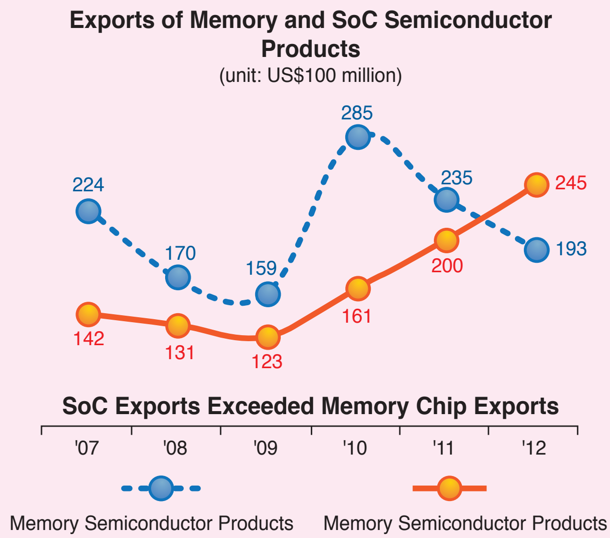
ICT Convergence Driving Continued Solid Growth

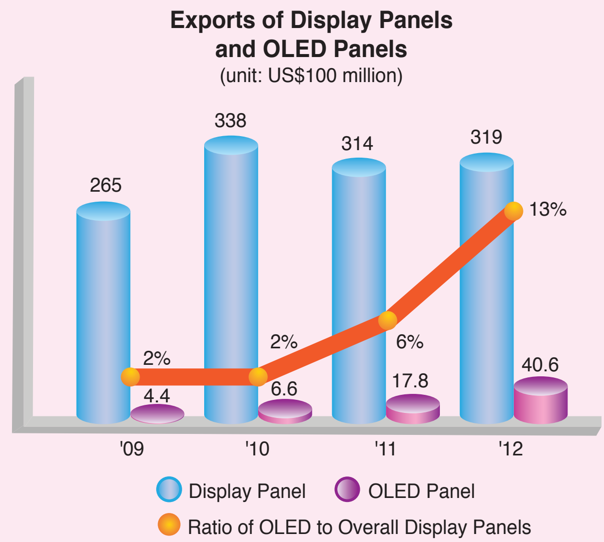
Exports from Korea's information and communications technology (ICT) sector and its trade balance set all-time highs in May this year.

The Ministry of Science, ICT and Future Planning recently announced that monthly exports increased 17.2% year-on-year to US$15.15 billion, while the industry's trade balance recorded a surplus of US$8.27 billion the same month, and breaking the US$8 billion mark for the first time.

In 2011, total exports from the ICT sector increased 2.0% from a year earlier to US$156.97 billion; setting a new record for the second consecutive year. However, the volume dropped slightly by 0.9% last year due mainly to the deterioration of external conditions. In 2012, the industry posted a trade surplus of US$77.3 billion, which was close to three times that of the total for all other industries in the country, as those segments that had been lagging behind, such as the system-on-chip (SoC), succeeded in enhancing their competitiveness. The comparison shows that the ICT industry is one of the fields providing the highest added value.

In the second half of 2012, exports from the sector picked up to recover losses recorded in the two preceding quarters and set a new half-year record. The revival was led by hardware and software convergence items such as SoC products and smartphones. Industrial and security package software exports showed a substantial increase as well, rising to US$2 billion -- embed-





Source: Ministry of Science, ICT and Future Planning

ded software excluded -- for the first time.

In the semiconductor segment, exports of SoC products exceeded those of memory semiconductor chips for the first time -- US$24.5 billion Vs. US$19.3 billion -- and remained above US$50 billion for three years in a row. Local SoC manufacturers were able to emerge from the red and improve their global market share and exports by shoring up their competitiveness in the mobile sector. In the meantime, local mobile phone makers shipped an increasing amount of high-end and mid-end products abroad; accounting for approximately 40% of the global market.

Display panel manufacturers posted total exports of US$31.93 billion during the period based on their technological abilities, aggressive investment and the large global demand for mobile devices. TV exports declined slightly to US$6.29 billion owing to market shrinkage and the expansion of overseas production, yet the large-screen, premium TV segment, which covers LED TVs, continues to see solid growth.

As stated above, Korea's ICT industry is distinguishing itself across all segments. Experts claim this has been possible thanks to the rapid development of the semiconductor industry in Korea.

The industry has served as the foundation of the country's electronics industry for the past 30 years. Statistical data regarding the sector began to be compiled in 1992 and has topped the list of key export items ever since, with the only exceptions being in 2008, 2009 and 2011.

Korea entered the semiconductor industry in 1965, when Komi Electronics Industry was founded. The Korea-US joint venture assembled and produced transistors and is considered the father of the industry in Korea.

In the 1980s, Samsung and Hyundai entered the industry, thus accelerating its growth. Samsung Semiconductor Communication succeeded in coming up with 64K DRAMs in 1983 in just six months from the start of the business. The news was truly astonishing in that only a handful of firms in the US and Japan had the technical capabilities required for high-density memory chips.

The history of the industry was rewritten in 1994, when Samsung Electronics unveiled the world's first 256M DRAM ahead of Japanese powerhouses. This made headlines around the world, with Samsung Electronics running TV and newspaper ads proclaiming, 'Koreans Conquer the World.'

Annual exports from the semiconductor industry topped US$10 billion in 1992, with the figure soaring to US$26 billion during the following eight years. In 2000, the ratio of semiconductor-to-total exports for Korea expanded to 15%. The US$50 billion mark was broken in 2010, with Korean companies' share in the global DRAM market rising to as high as 60%.

Samsung Electronics ranked second in the entire semiconductor market, following Intel, in 2002, beating Toshiba, ST Micro and Texas Instruments at the same time. SK Hynix has remained in the top 10 since 2006. "There is no doubt that the government's systemic support and industry leaders' aggressive investment have led to Korea becoming a global powerhouse in all ICT segments, including smartphone, computer, LCD TV and many more, within such a short period of time," said the Korea Semiconductor Industry Association.

PENETRATION INTO NEW INDUSTRIES

Korea's Major Corporations Turning into Diversified Businesses

Korean Companies' Penetration into New Industries

Samsung Electronics	Manufacturing of medical equipment, LED lighting and biopharmaceuticals
Hyundai Steel	Development of advanced automobile materials
LG Electronics	Solar cell, water treatment and healthcare (water purifier, etc.)
SK Innovation	Manufacturing of secondary batteries for vehicles and distribution of electric vehicles
SK C&C	Online used car business
Hyundai Heavy Industries	Photovoltaic business (solar cell development, etc.)
Samsung Heavy Industries	Power generation (wind power generation, etc.)
Samsung SDI	Energy industry (manufacturing of car batteries, energy storage systems, etc.)
GS Caltex	Carbon fiber production
Cheil Industries and KOLON	Water treatment, high-tech electronic information materials
Oil companies including Hyundai Oil Bank	Manufacturing of petrochemical products

Hyundai Steel recently declared that it would develop advanced textile materials used in automobiles. The Samsung Advanced Institute of Technology, in the meantime, is working on non-electronic future technologies such as biotechnology, medical equipment and LED lighting fixtures as well.

It is difficult to figure out the business fields of SK Innovation only with the company's name. Although many people are thinking that it is an oil company, it is also running business units developing and manufacturing automobile batteries, petrochemical goods, etc. Cheil Industries, which started as a textile company, is doing business in the electronic materials and water treatment industries, too. GS Caltex, one of the largest oil refinery operators in the country, is seeking to enter the textile industry. In short, an increasing number of companies are expanding their business into the fields they were not engaged in before, turning themselves into conglomerate companies in an effort to ensure future growth.

The term of Conglomerate Company can be defined as an enterprise running multiple business units in different fields through the penetration of new sectors, M&A and the like.

One of the examples is GE. It is doing business in a variety of sectors, including water treatment, energy management, aviation, transport logistics, healthcare and financial service. Conglomerate Company is a different concept from business line expansion in that the former's purpose is to develop new business items and diversify business portfolios by entering new sectors.

These days, global leading enterprises are transforming themselves into conglomerate companies at a rapid pace. Johnson & Johnson is expanding itself into non-pharmaceutical industries and Walmart has entered the manufacturing sector. The same trend is found in Japan,

too. In particular, automobile and electronics manufacturers in the country are moving into completely different industries nowadays in a bid to cope with the growth limit.

Under the circumstances, Korean enterprises are also busy seeking new business opportunities. For instance, LG Electronics is working on water treatment, solar cell and LED lighting technologies while POSCO, a leading steelmaker, has recently kicked off material development projects. Some heavy industry companies are developing wind turbines and engines and general trading companies are working on oil fields.

"The trend is accelerating in Korea as more and more companies are going into new sectors for their future," said the Samsung Economic Research Institute (SERI), continuing, "It is something different than the reckless business diversification of the past, which was solely to increase their size." The Federation of Korean Industries (FKI) added, "Fields such as steelmaking, shipbuilding and automobile are approaching their growth limit with time, which means the necessity of the transformation into conglomerate companies is on the rise."

The tendency is likely to create a whole new concept of competition down the road, that is, competitors being found in different industries. As an example, pharmaceutical companies may find themselves vying with not the other companies in the industry but Samsung Electronics that produces medical equipment and biopharmaceuticals. In the water treatment industry, construction and electronics companies may be in rivalry with each other. "The present trend will change the definition of competition as we know it," said an industry insider, explaining, "For example, GE can compete with Korean companies in various fields over time."

"The trend is accelerating in Korea as more and more companies are going into new sectors for their future"

smart answer

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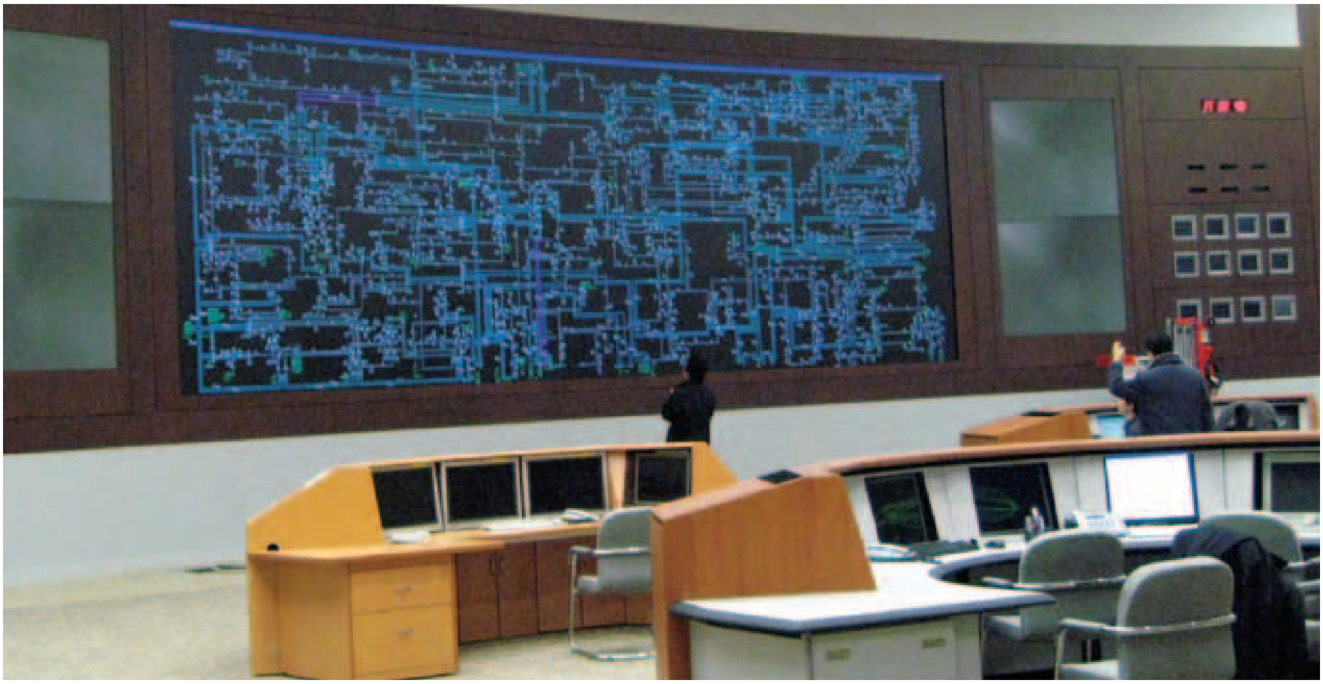


HEAVY DEPENDENCE ON NUCLEAR POWER

Vulnerable to Repeated Power Shortage Crises

Prime Minister Jeong Hong-won (in the middle) visited the Korea Power Exchange (KPX) in Samsung-dong, Seoul on June 3 to watch the electricity supply situation with KPX director Nam Ho-ki (in the left). The organization issued a preliminary warning for a possible power shortage at 1:31pm on that day.

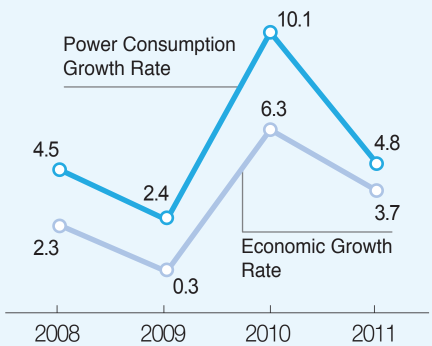
Former Minister of Knowledge Economy Hong Seok-woo went in a hurry to Yeonggwang County, South Jeolla Province in December last year upon returning from the United States with his investment promotion delegation. This was because the national power supply was on the verge of failure in the wake of the stop of the operation of the fifth and sixth atomic power stations located in the region which had been caused by an unprecedented scandal surrounding the use of defective parts. "The power stations will never be reactivated unless safety is guaranteed," he said at that time but the facilities were put into operation again before the end of that year amid considerable controversy as there was no other option to deal with the situation.

Just six months later from then, exactly the same thing is happening like déjà vu. The operation of Shingori Unit 2 and Shinwolseong Unit 1 has been halted again because of the same scandal and Minister of Trade, Industry and Energy Yoon Sang-jik has returned hurriedly from his overseas trip.

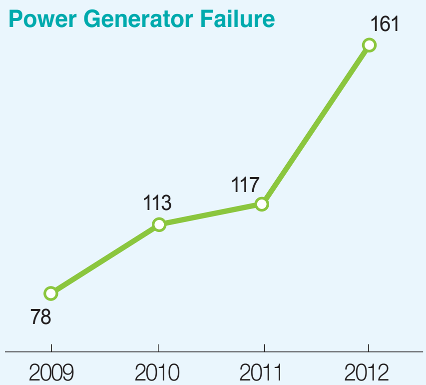
These days, the power supply authorities are bending over backwards to restart Hanbit Unit 3 in Yeonggwang and Hanwool Unit 4 in Uljin County, North Gyeongsang Province, both of which have malfunctioned since last year. The former's operation was stopped in November 2012 due to cracks in the control rod guide tubes and the latter has been shut down for a year owing to problems related to the heat pipes of the steam generators. Although the reoperation is a matter to be decided by the Nuclear Safety and Security Commission, the Ministry of Trade, Industry and Energy has already included the facilities into its national power supply plan for this summer, allowing for the consideration that the fast-increasing electricity demand cannot be met without the nuclear power plants.

As explained above, the precarious situation in which a crisis caused by nuclear power is tackled by means of none other than nuclear power is repeating itself year after year. The government is planning to force major corporations to save electricity from August but a large-scale blackout is highly likely between June and July unless Hanbit Unit 3 is run again. In short, the restart of the defective nuclear power plants is about to be in progress again due to concerns over a power crisis with the safety consider-

Comparison between Economic and Power Consumption Growth Rates (unit: %)

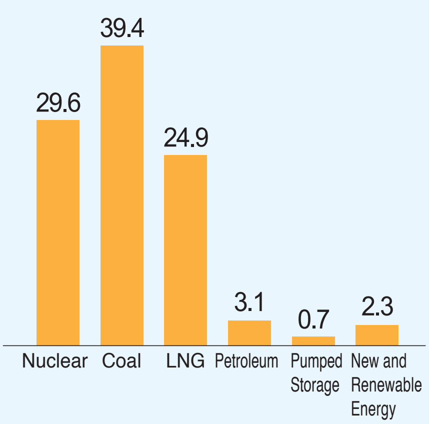


Number of Cases of Power Generator Failure



Source: Ministry of Trade, Industry and Energy and Korea Electric Power Corporation(KEPCO)

Ratio of Electricity Supply by Power Source (unit: %)



ations put aside.

Korea is the ninth-largest electricity consumer in the world and nuclear power accounts for no less than 30% of the total supply. Since the price of electricity is low here, the national power consumption increased at an annual average rate of 5.6% between 2002 and 2011. The cooling load during the summer peak season has exceeded 1.7 million kilowatts, which is equivalent to the combined output of 17 atomic power stations or dozens of coal-fired or LNG power plants. "If energy policy remains focused on the supply side, we can't but become more and more dependent on large-scale energy sources such as nuclear power," said Lee Jin-woo, vice chairman of the Energy & Climate Policy Institute. He went on, "The government's demand management measures as of late are nothing but compelling the private and corporate sectors to sacrifice themselves for a certain period."

Earlier, the government expected that things would get better next year as the reserve rate surpasses 16% based on its plan for the operation of Shinwolseong Unit 2 and Shingori Unit 3 scheduled for this year and Shingori Unit 4 next year. However, the plan is showing signs of going awry now with all of the three power stations being hit by the scandal. A comprehensive investigation is underway, signaling a bumpy road ahead for the government.

Experts are pointing out that its power supply policy should be redirected to revolve around the demand side, instead of concentrating on the construction of power facilities. 27% of the power generators in the country are at least 20 years old. "Korea, rather inevitably, has had to focus on the supply side due to its economic growth centered around the heavy and chemical industries but now is the time to adjust the policy, including power rates," said Samsung Economic Research Institute senior researcher Kang Hee-chan, continuing, "This may pose a challenge to industrial sectors for the time being but the radical reform is the needs of the times in the end." BK

GASTECH 2014

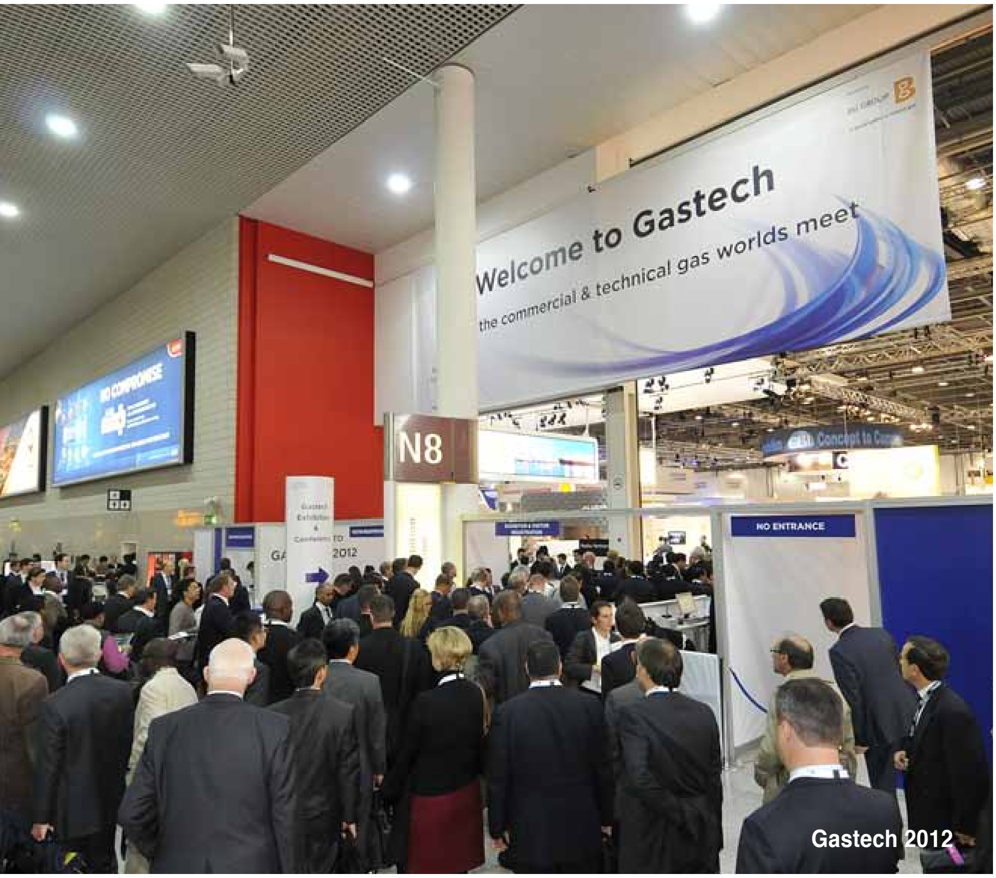
Bringing its Centres of Technical Excellence (CoTEs) to Korea

Driving awareness of innovation and advancement in gas technologies, Gastech Conference & Exhibition brings its Centres of Technical Excellence (CoTEs) to Korea in 2014.

The rise in energy demand worldwide has put significant pressure upon the energy industry to ensure security of supply. Natural gas has become the preferred energy source for manycountries looking to secure energy supply and lower emission levels. While theindustry is pushing the boundaries to increase gas production, there is only so much that can be done with current technologies.

Technological innovation is key to staying ahead of the game, and companies supplying these technical solutions will play a significant role in developing the world's resources. To highlight developments in gas technology, Gastech is once again giving technical experts the stage to showcase their developments for the gas industry at the CoTEs.

The CoTEs are free-to-attend educational seminars located on the show floor, and are led by high-level speakers from respected associations and organisations. The CoTEs provide thought-provoking discussions dedicated to delivering knowledge and awareness of technological innovations in the gas industry.



Gastech 2012

Taking place from 24-27 March at KINTEX 1, Korea the CoTEs feature nine streams: Offshore & Subsea Technology; Power Generation; LNG as a Shipping Fuel; LNG & Gas Carrier Shipbuilding; Liquefaction; Health, Safety, Security & Environment; Gas Monetisation NGL/GTL; Natural Gas Vehicles (NGVs); and Pipeline Infrastructure.

"Technology has been fundamental in propelling exponential growth of the gas industry over a relatively short amount of time. That is one of the reasons why the CoTEs have been quickly established as one of the most anticipated features of Gastech, attracting thousands of gas professionals. We look forward to welcoming submissions from industry leaders to showcase innovation that will play a role in driving the industry forward for decades to come." says Amanda Basi, Content & Programme Manager for the Gastech CoTEs.

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KT

Planning to Invest 3 Trillion Won in Networks

KT plans to spend 3 trillion won in building highly-advanced networks over the next five years and create 25,000 new jobs. The company aims to secure the future revenue sources by circulating lots of virtual goods throughout its advanced networks.

KT had a press conference in celebration of the fourth anniversary of its merger with the former mobile phone operator KTF, with its CEO and Chairman Lee Suk-chae and other executives attending, on June 11 at the Olleh Square located in Gwanghwamun, Seoul.

Chairman Lee told the reporters, “The virtual space is a network-based stage and no one can estimate the size. It will be no less challenging space for human than physical space.”

KT will open a full-fledged giga-byte Internet era by investing 3 trillion won in highly-advanced networks, apart from the existing networks, by 2017 and activate the virtual space where virtual goods can be freely traded. In this process, KT expects to create 25,000 jobs.

KT’s strategy is to lead the smart revolution through early construction of giga-byte Internet networks that can provide easy access to virtual goods at a low cost, regardless of wire and wireless. In this regard, KT is expanding its business portfolios to non-telecommunication areas such as mobile, finance and payment, media, and rental.

The chairman said, “To avoid the same sort of failure as in the fixed-line phones (PSTN), the mobile carriers should create various kinds of network-based services or have such services traded and consumed throughout the networks. That’s the way they can survive and why our KT is challenging new businesses in the non-telecommunication sector.”

Lee Suk-chae, CEO and Chairman of KT, is speaking at the press conference in celebration of the fourth anniversary of KT’s merger with the former mobile phone operator KTF in the morning of June 11 at the Olleh Square in downtown Seoul.

Some criticize KT’s business expansion as a sort of Korean conglomerates’ sprawling investment.

The chairman responded to this criticism, saying “The world’s giant conglomerates such as Microsoft (MS), Amazon, Google and Apple had many excellent engineers but still took over lots of venture start-ups to make up for their weakness. KT’s business expansion is based on virtual goods, so it needs to be engaged in various business categories such as media and real estate, or sometimes take over venture start-ups.”

Next month, KT will unveil the world’s first web-based IPTV which has grafted the open platform OS on its current IPTV called “Olleh TV.”

The web-based IPTV will be a two-way communication tool with which anyone can easily create contents and participate in developing services. Consequently, it will be able to provide an unlimited number of channels. KT expects to make it easier to find the contents you want and accelerate the computerization of TVs.

“Our innovations in networks and platforms will open a huge amount of business opportunities in the domestic network equipment and software market, which will not lead only to mutual growth of large and small businesses and cost savings but also to more entrepreneurship and quality jobs,” the chairman emphasized.

LG DISPLAY

Setting an Example of Social Contribution

LG Display opened a play therapy center for disabled children in Vietnam on May 22.

LG Display is turning itself into a role model of corporate social contribution overseas.

Approximately 600 employees of the company have participated in its outreach program in Quoc Oai, Vietnam since April this year, building a rehabilitation center for the disabled and a play therapy center for physically handicapped children. The opening ceremony was held on May 22, and attended by personnel from the Vietnamese government and around 30 of the company's executive and staff members, including labor union leader Seok Ho-jin.

The company selects so-called innovation leaders each year fropm among its employees and provides them with overseas training programs. Volunteer activities in Vietnam were part of the programs designed for technical personnel. Roughly 360 employees from the company's Gumi plant built a play therapy center and repaired an annex dormitory, while 280 employees from its Paju site established a public gymnasium.

In the meantime, staff members from the company's Nanjing site have been actively participating in the company's corporate social responsibility programs. Since 2010, more than 6,000 employees have joined such activities, raising the participation rate to over 50%. One such example is blood donation. The local subsidiary's managers and employees donated 35,000ml of blood during the past year, as a result winning an official commendation from the municipal government. Furthermore, they have been engaged in charity activities for unfortunate neighbors, as well as environmental protection programs such as litter collections.

The display panel manufacturer's Yentai office donated scholarships on last year's International Day of Disabled Persons (December 3), to a local school for hearing-impaired children. Furthermore, it has served dishes to senior citizens during the Tano period for many years. The company's volunteers have also collected garbage along the coast of Yentai in an attempt to preserve the environment.

The three subsidiaries located in China have regularly held singles parties in an attempt to allow their busy workers the opportunity to date. They have also provided wedding cars for newly-married employees, along with hotel vouchers and cakes. "I had a truly unforgettable wedding ceremony thanks to the company," said one employee, adding, "I'm so proud to work for this company, in which all the workers are like my family."

At the same time, LG Display is devoted to the welfare of its female workers. The company is running lounges dedicated to pregnant employees, and which are equipped with comfortable chairs and refrigerators, as well as optimal temperature, humidity and natural lighting conditions. Special meals and fresh fruit are also available.

"We will continue to offer high-quality services," said Kim In-soo, who heads the Guangzhou branch of LG Display. Union head Seok Ho-jin echoed this, saying, "All labor union members will remain committed to corporate social responsibility activities in this era when social contribution is not an option but a requirement." BK

NEW TYPE OF LTE TECHNOLOGY

Adopted by China and India to Pose Challenge to Foreign Manufacturers

Global smart phone manufacturers like Samsung Electronics, LG Electronics and Apple are striving to increase their presence in the Indian and Chinese LTE market with China Mobile, the world's largest mobile carrier with over 700 million subscribers, planning to kick off a new type of LTE service from the latter half of this year. China is the biggest regional smart phone market in the world, accounting for 25% of the global smart phone sales. Using the numbers game, China Mobile adopted an LTE technology different from the mainstream technologies. India has taken up the technology and Saudi Arabia and Russia are also moving in the same direction.

A Chinese man is passing by a China Mobile store in Beijing talking on the phone.

At present, 90% of the telecom operators around the world, including KT, SK Telecom and LG U+ in Korea, are using LTE-FDD, or long term evolution frequency division duplex. Meanwhile, China Mobile and India's Bharti Airtel have adopted LTE TDD, which stands for time division duplex, to take their own way.

Although the number of the mobile carriers using LTE TDD is less than 10% of the total, the number of the two companies' potential customers reaches no less than 2.5 billion. Approximately 158 million people are expected to subscribe to the service by 2015 to take up 37% of the global LTE market.

Industry experts are saying that the rankings of smart phone makers will change depending on who dominates the huge emerging markets. The LTE markets in Korea, the United States and Japan are already reaching saturation.

It is LG Electronics that led up. The company developed its first LTE TDD-based smart phone, Optimus G, in May and supplied it to Saudi Telecom, the number one telecom operator in the Arab region. The product is planned to find its way into China and India during the second half of this year, too. Samsung Electronics, in the meantime, is going to supply the LTE TDD version of the Galaxy Note 2 to China Mobile this month and apply the same technology to the Galaxy S3, Galaxy S4, etc. Chinese manufacturers like Huawei and ZTE are coming up with new models to defend the local market as well.

According to the companies, the supply of LTE TDD-based handsets is no tall order because they have only to place a chip supporting both TDD and FDD in their products, which entails little increase in manufacturing costs.

Consumers are likely to feel little inconvenience, either. If you are in China with a handset using LTE FDD, you cannot enjoy the fast LTE services due to the difference in communication method and frequency. However, countries across the world use the same type of third-generation telephony and you can still use the voice call and data services with no trouble at all.

The 2.3GHz frequency allocated for LTE TDD services in India and China is also used in Korea, by SK Telecom and KT, for their mobile WiMax services better known by the name of WiBro. KT CEO and president Pyo Hyun-myung said last year that the frequency would have to be converted for LTE TDD services allowing for the fact that the WiBro failed to win over the general public. "Then, KT will have to return the frequency," the Korea Communications Commission retorted at that time to silence the argument.

On the part of mobile carriers, which are struggling in the lack of frequencies dedicated to LTE services, getting a new frequency bandwidth, whether FDD or TDD, is a great boon because it can be utilized to deal with the problem of user concentration. However, some people are casting doubt on the necessity of building LTE TDD networks from scratch with the nationwide networks being already laid on an LTE FDD basis. This is of no help for customers since they have to buy new smart phones if they are to use the LTE TDD service.

In contrast, mobile phone manufacturers are in favor of setting up local LTE TDD networks as they need a sort of test bed for their LTE TDD smart phones before making inroads into the Chinese and Indian markets. The Ministry of Science, ICT and Future Planning is planning to organize a task force to discuss the suspension of WiBro and utilization of frequency resources.

SEMICONDUCTORS

Prolonged "Absence of Investment"

Semiconductor manufacturers' investment into plants and equipment will likely be made at a snail's pace. There is slim chance of market share competition because nothing but smart devices is driving up demand for semiconductors and the semiconductor manufacturers seem happy with gains from the stabilized market prices for now. The equipment suppliers are under severe stress to come up with strategies to survive the current market situation where the 2-year-long investment downturn continues even further and the Japanese yen keeps undervalued.

According to industry sources on May 28, Samsung Electronics and SK Hynix have decided to minimize the investment in semiconductors this year, but still undecided the size of actual investment.

Samsung Electronics previously announced its investment plan; US$ 7 billion (about 7,807.8 billion won) in Xian, China; 2.25 trillion won in its Hwasung Plant Line 17 in Gyeonggi Province, Korea; and US$ 3.9 billion (about 4,333.7 billion won) in Austin, USA. However, nothing has been carried out but the groundbreaking for part of the Xian Plant until now.

SK Hynix is also going to make very little investment this year. It has no new investment plan but the partial expansion of the Nand Flash Line in its Cheongju M12 Plant. The company has delayed the previous plan to have a larger portion of DRAM for mobile devices because DRAM for PCs, accounting for about 40% of the current DRAM lines, has recently improved the profitability. In accordance with its profit-oriented management strategy, the company will focus on currently available substantive gains rather than investment for the future for a while.

The investment in semiconductor plants and equipment keeps inactive because the market, which has been driven by smart devices in recent years, is now reaching a saturation point. According to a global market research firm Strategy Analytics, the smartphone market grew 43% in 2012, a sharp decrease from 2011 (64%). It predicts the growth rate in the advanced nations will drop to a 10% level this year.

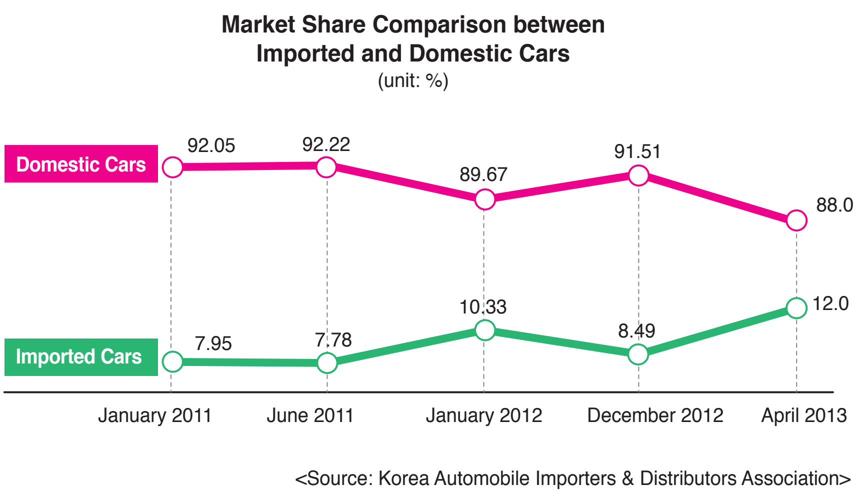
The stabilized DRAM prices are regarded as a negative factor to the expansion of equipment investment. An industry expert said, "Prices have risen since most companies ran out of the year-end inventories and some Japanese and Taiwanese players began curtailing production. Now the surviving companies are enjoying the survival effect. They want to keep the status quo as long as possible."

Accordingly, the equipment suppliers are struggling to get out of the deep swamp of economic depression. "Samsung Electronics might think of expansion, but there is no room for additional equipment because it delayed the works for expansion of the Hwasung Plant Line 17. The equipment suppliers are disappointed with Samsung's decision to put no money at home but some in Xian, China," said Kim Sung-in, a researcher of Kiwoom Securities. As the recently weaker yen has pushed down the Japanese equipment by nearly 30% and the local companies in China are very actively approaching Samsung, the Korean equipment suppliers' winning chances are slim.

An industry source said, "We are seeking business diversification toward displays and light-emitting diode (LED), and looking for new business opportunities such as materials. We are also thinking of the overseas markets such as Taiwan and China, but situations are not good." BK

IMPORTED CARS

Market Share Topped 12% in Korea



It has been found that the monthly sales of imported cars in Korea set a new record thanks to such factors as the currency exchange rate and the FTA in spite of the domestic economic recession. Local automakers are paying keen attention to the trend with the sales being expected to continue going up for a while.

The Korea Automobile Importers & Distributors Association (KAIDA) announced on June 7 that a total of 13,411 imported vehicles were newly registered in May to post a 0.7% and 14.5% growth rate from a month and a year earlier, respectively. On a cumulative basis, the figure amounted to 61,695, growing 19.4% year on year. "The rapid increase can be attributed to some brands' aggressive marketing promotion following the start of the peak season," said Yoon Daeseong, senior managing director of the association.

In May this year, imported cars accounted for 12.0% of Korea's passenger car market and their market share increased 1.9% from a month ago. The record high was set in January, when the percentage reached 12.9%. This year's cumulative sales of foreign cars, in the meantime, grew 19.4% year on year from 51,661 units to 61,695 units. Meanwhile, Korean automakers sold 119,124 vehicles in Korea last month to post a 1.2% drop when compared to the same period of last year, although they are faring quite well in overseas markets.

Industry insiders are pointing out that the decrease in sales is due to local carmakers' reliance upon the tariff wall. Global leading automakers have made strenuous efforts to reduce costs, restructure themselves and develop advanced technologies since the international financial crisis of 2008. As a result, they have succeeded in further refining the quality of their products and supplying them at even lower prices at the same time. For example, Toyota have boosted its production capacity by means of solar power generation and process efficiency enhancement and has come up with a series of new models to recover fast from the nightmare of the Sendai earthquake.

However, the manufacturing capacity of Korean carmakers, which suffered relatively less from the financial turmoil, has declined due to labor-management conflicts, compounding the matter of weaker brand awareness. Besides, the tariff barrier has been abolished to cause their price advantage to disappear.

Furthermore, the risk factors are affecting their overseas sales these days. According to Automotive News, the combined turnover of Hyundai Motor Company and Kia Motors in the US market increased by just 1.6% from a month earlier in May, way lower than the industry average at 8.1%. This was because of undersupply and the lack of new models.

It is Japanese automakers that are taking advantage of the circumstances. They sold 2,588 new cars in Korea last month to increase their market share by three percentage points year on year. In contrast, German companies' share declined by the same margin to 63.1%. 8,456 vehicles imported by German automakers were newly registered in Korea last month.

BMW's local sales dropped 10.8% during the same period to 2,663 units, causing the market leader's share to fall from over 25% to 19%. Mercedes Benz's figure increased by 6.8% to 1,995 and Volkswagen posted a 33.1% increase to 1,952 units, thanks mainly to the recently launched Polo. Audi recorded a 27.5% increase to 1,632 units as well. They were followed by Toyota, which sold 1,314 vehicles to record a 52.8% increase in sales, Ford (44.1% up to 657 units) and Lexus (6.2% up to 521 units).

The cutthroat competition between the German and Japanese car manufacturers in Korea is likely to go on throughout the second half of this year. Toyota kicked off the local sale of the New Generation RAV4 on June 1 and the New IS models make their debut here on June 26. BMW is planning to start the sale of the 320d Gran Turismo from July.

JAPANESE CARS

Sales Up Sharply in May Due to Weaker Yen and Discount

Riding on a weaker yen, Toyota's low-price approach is getting a good response in Korea. Toyota said on June 3 that it offered discounts of up to 7 million won last month and its May sales rose 53% year-on-year and 128% from a month ago.

For the same period, five Korean car makers sold an average of 1.2% less year-on-year at home. Hyundai and Kia made early debut of their 2014 new models at 200,000 to 300,000 won lower prices than before, but failed to draw attention due to Toyota's blow-out sale. Toyota said it will keep the momentum in June, too, by maintaining the maximum discount rate at a similar level as May and offering a one million won additional discount for Camry 3.5L (total discount of 4 million won).

Toyota Motor Korea sold a total of 1,316 cars in Korea last month including 885 units of Camry (hybrid included), more than doubled from 576 cars a month ago. That's because it offered a discount of 3 million won for Camry and hybrid model Prius, and 7 million won for sports car Hachiroku (86). "Thanks to the discount event, we had the biggest sales record last month since we began the business here in October 2009," said Lee Byung-jin, a director of Toyota Motor Korea.

Toyota's discount event continues this month. The 43 million won Camry 3.5L will sell at a 4 million won discounted price. Toyota will keep the discount rate of 7 million won for Hachiroku and Venza. Toyota Motor Korea and its dealers share the burden of discounts by half and half in most cases. But, for some models, Toyota subsidizes most of discounts.

A source from Toyota said, "We have paid for the imports to Korea in dollars rather than in yen since early last year. With the plunge of the yen against the dollar, our Japanese headquarters tend not to oppose the aggressive price strategy."

Toyota also benefits from consumers' expectation that the depreciated yen will make the Japanese cars cheaper. Mr. Jeong (aged 31, living in Mok-dong, Yangcheon-gu, Seoul) recently chose Toyota Camry rather than Hyundai Santafe and said, "I asked the dealer if I could save money from the yen depreciation and he explained the 3 million won discount event. Then I was glad to buy it." Another Japanese car makers Honda and Nissan also increased sales in Korea for the January to April period this year by 33% and 24% year-on-year, respectively.

On the other hand, domestic car makers show quite different atmosphere. All but Ssangyong Motor (+ 28.4%) recorded poor sales; Hyundai sold 0.2% less cars in May this year than a year ago, Kia 3.1% less, GM Korea 9.2% less and Renault Samsung 1.4% less.

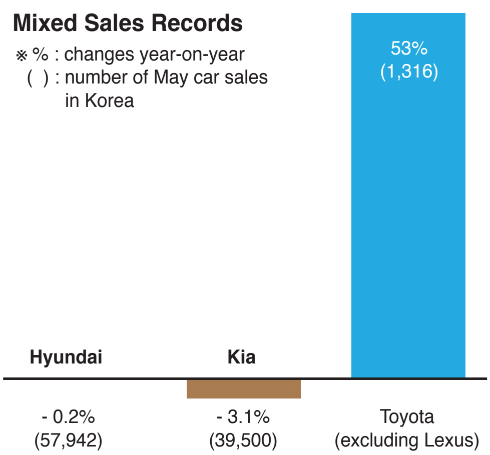
Kia's flagship model, K5's May sales fell 44% from a year ago. The company has decided to start selling the "2014 all new K5" at a maximum of 550,000 won discounted price from June 13, but some people even from the company expressed worries about the results. A source from the company said, "We worry that consumers' attention will be drawn to Toyota and other Japanese cars due to their millions of won discount events."

Some experts predict that the Japanese makers' discount events will go on even after the pace of the yen's depreciation gets slower. According to them, the Japanese makers will try to dampen the Korean makers' earnings by keeping their low-price strategy for the popular models such as Toyota Camry and Honda Accord and limiting the Korean competitors' price ceilings.

"Each year Toyota sells about 2 million cars in the US, but no more than 10,000 cars in Korea. Korea is indeed a minor market to Toyota. Nevertheless, Toyota regards the Korean market as a strategic foothold because it can limit the price ceilings of the competitors such as Hyundai and Kia," explained Lee Hang-ku, a senior researcher of the Korea Institute for Industrial Economics & Trade (KIET).

Mixed Sales Records

※ % : changes year-on-year
( ) : number of May car sales in Korea



Toyota as cheap as Hyundai

※ price comparison (in million won)
※ Hyundai shows the lowest-price models of the same class.

Hyundai	Kia
Camry 2.5L: 30.7	Grandeur 2.4L: 30.12
Prius: 28.3	Sonata Hybrid: 28.65
Venza 3.5L: 45.3	Veracruz 3.8L: 43.26

<Sources from Hyundai, Kia, Toyota>

SSANGYONG E&C

Will the Builder Avoid Court Receivership?

Employees of Ssangyong E&C are demonstrating against KAMCO's decision at the front of KAMCO headquarters

Ssangyong Engineering & Construction (Ssangyong E&C) submitted a high-intensity self-rescue plan to the creditors in September last year after it failed all of the five M&A attempts to overcome the liquidity crisis. Then, Ssangyong E&C implemented radical personnel restructuring. Half of its executive members were held responsible for the crisis and left the company, and about 30% of its 1,200 employees (including short-term contract workers) were laid off.

Ssangyong E&C has not paid the wages since it went into the state of capital erosion and applied for a creditor-managed workout program in February this year. Its subcontractors have been barely breathing day by day for the past four months without being paid for their works. That's because no money has been injected into the company as the decision-making process for a debt workout program has been delayed.

Attention is drawn to if the painfully suffering constructor will dramatically recover just around the corner of the forced court receivership. Now the financial authorities have come forward after the creditors chose to delay the decision on the commencement of the workout program and even the major creditor Woori Bank stood back.

The financial authorities are stepping in for the commencement of the workout program

Woori Bank told the financial authorities on June 10 about the creditors' intention not to agree on Ssangyong E&C's workout program. Indeed, it hit a serve that forced the financial authorities to make a decision. Previously, Woori Bank asked the other creditors to submit the letters of agreement no later than June 7 but no creditor did that. Then Woori Bank reached a conclusion that the decision should not be delayed any more.

However, the financial authorities' position is to arrange more talks among the creditors. A source from the financial authorities dropped a hint of stepping in, saying "We will soon convene the creditor banks' vice presidents."

Some industry experts also predict that the financial authorities will not leave this matter unsettled. The financial authorities are already blamed for losing their function as a control tower for the case of STX Pan Ocean which has recently enter the court receivership. And there seems a subtle change in the atmosphere surrounding the creditors who are conscious of public opinion. Woori Bank and Korea Exim Bank have already submitted the letters of agreement, and it is said that Hana Bank and Korea Development Bank (KDB) are internally inclined toward yeas. "As I know, Hana Bank and KDB will agree right after the other creditors submit the letters of agreement," said the source.

Korea Asset Management Corp (KAMCO) holds the key

Despite the financial authorities' mediatory efforts, Shinhan Bank and KB Kookmin Bank are still hesitating to agree. The two creditors are against the workout program, emphasizing KAMCO's role. "KAMCO was the major shareholder of Ssangyong E&C. Now the two banks demand KAMCO's responsible role in the workout program, which they say will justify the other creditors' action," said the source. However, there is no legal ground to have KAMCO join the workout program.

Agreement between the creditors and the interested parties is being delayed, but there is not much time left. Time's already up in some ways. Legally-accepted delay for the redemption of debts is until June 25, but Woori Bank has set June 7 as the de facto "final deadline" as all of Ssangyong E&C's overseas projects are at risk of being stalled.

Woori Bank is expected to send the written notice about the current restructuring process to the foreign contracting parties of Ssangyong E&C's overseas project agreements no later than June 12.

However, Ssangyong E&C will not be able to avoid the court receivership if the creditors eventually fail to agree on the workout program. The source said, "Ssangyong E&C has yet to pay 400 billion won for the B2B transactions and subcontractors' works. It doesn't have the minimum capital for the court receivership."

Ready to Start Corporate Restructuring Process?

On June 13, Shinhan Bank agreed to the start of the workout process of Ssangyong Construction to follow Kookmin Bank and let the builder take a breather after some 100 days of financial troubles.

According to the creditors, Shinhan Bank decided to submit its agreement in the credit committee meeting held on that day to raise the credit ratio of the creditor banks in favor of the workout process to 45.52% -- Woori Bank (24.22%), Export-Import Bank of Korea (1.5%), Kookmin Bank (7.95%) and Shinhan Bank (11.85%). In order for the process to start, the percentage has to reach 75%, which is expected to be likely with the others in the group having expressed their consent on certain conditions.

The Seoul Guarantee Insurance (15.16%) and the Korea Development Bank have said that they will join the crowd if Kookmin and Shinhan Banks agree to the workout process. Under the circumstances, the process is expected to be kicked off through another meeting on June 14. If the former two agree, the percentage goes up to 76.01%. Woori Bank, the main creditor bank, is going to give a notice of process cancellation to Ssangyong Construction if the agreement is not reached by June 14. Therefore, the other creditor banks are likely to submit their agreements on that day.

Once the procedure begins, Ssangyong Construction can avoid delisting and be given 445 billion won for financing, 240 billion won for overseas business and 107 billion won for financing conversion. Then, it is going to pay approximately 200 billion won to about 1,400 partner firms.

It is thought that the creditor banks, which insisted on the Korea Asset Management Corporation's sharing the burden, have changed their stance in a hurry because of the pressure from the financial authorities. Also, it seems that they felt some pressure as Ssangyong Construction failed to win some overseas projects due to the delay of the corporate restructuring process. The builder has missed or is likely to miss out on US$200 million and US$ 630 million projects in Singapore as it has failed to submit its data on financial structure improvement. The company was selected as the preferred bidder for a US$1.13 billion subway construction project in the Middle East late last month but it has to hand in the data by June 14, too. BK

Ssangyong E&C's Restructuring Process

Ssangyong E&C's restructuring process	
Nov 2007	1st public notice of sale
Dec 2011	2nd public notice of sale
Mar 2012	3rd public notice of sale
Jun 2012	4th public notice of sale
Aug 2012	5th public notice of sale
Feb 2013	Notice of complete capital erosion
26th Feb 2013	Application for workout program
25th Jun 2013	Legal deadline for redemption of debts

Image of Large-scale jack-up rig that Samsung Heavy will construct.

SAMSUNG HEAVY INDUSTRIES

Winning an Order of Jack-up Rig

Samsung Heavy Industries (SHI) has made inroads into the world's large-scale jack-up rig market which is emerging as the shipbuilders' new revenue source these days.

SHI announced on June 12 that it signed a contract with Norway's Statoil to construct two large scale jack-up rig units for offshore drilling in the North Sea. The contract value is known as about US$ 1.3 billion (about 1,464.4 billion won). The contract includes an option of two more units, which represents the possibility of winning an additional order of two units.

Jack-up rig is an offshore drilling facility used to develop oil fields on continental shelves. It moves down the elevator-style metal column from the main deck into the deep sea, fixes it to the ocean floor, and buoys up the main deck over the sea surface to begin operation. It can effectively avoid the influence of waves and tides, so it is often used in shallow but rough waters.

Most of the existing jack-up rig units around the world are small and medium scale facilities that can only operate at a depth of 100 meters or lower below the sea level. The world's small and medium scale jack-up rig market is dominated by Chinese and Singaporean shipbuilders that have long experience and price competitiveness.

However, under the contract with the Norwegian oil company, SHI will construct two large scale jack-up rig units that can explore 10 kilometers beneath the ocean floor at a maximum water depth of 150 meters. They will have highly-advanced specifications so that they can endure extreme winter temperatures of minus 20 degrees or lower and rough water conditions in the North Sea.

Large scale jack-up right units are traded at an average price of US$ 650 million, nearly tripled that of small and medium scale ones and even more expensive than drill ships (avg. US$ 500 ~600 million).

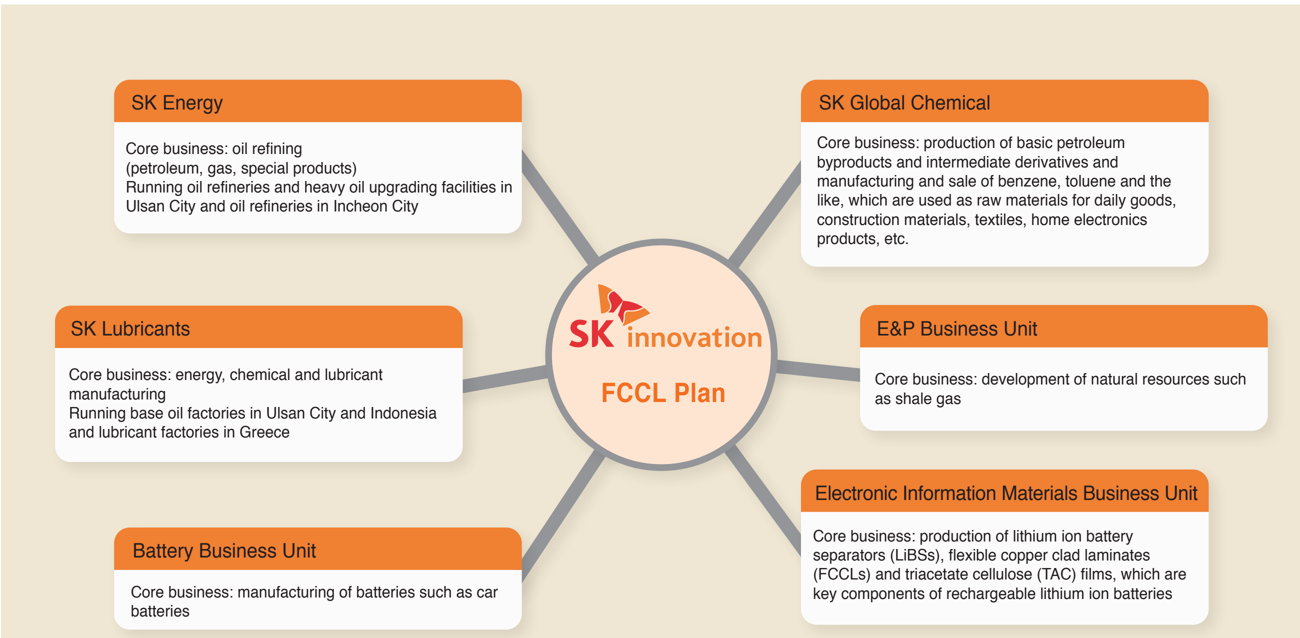
In the meantime, this is SHI's first successful bid for jack-up rig. It is said that Statoil valued SHI's unchallenged competitiveness in the drill ship sector and successful experience in the construction of various kinds of ships and marine facilities in the North Sea region.

A source from SHI said, "The large scale jack-up rig market is emerging as the shipbuilders' new revenue source. We predict there will be worldwide demand for 2~3 large scale jack-up rig units per year until 2020. Beginning from this contract, we will try our best to lead the global market."

An industry source said, "Jack-up rig is a fixed-type marine facility in the shallow seas. I expect Korean companies will receive more orders because there is sufficient demand for replacement of the existing old ones." BK

SK INNOVATION

Eyeing to Dominate Global FCCL Industry



Source: SK Innovation

SK Innovation held an investment conference on May 14 and announced that it decided to expand the second flexible copper clad laminate (FCCL) production lines in the Jeungpyeong Industrial Complex located in North Chungcheong Province. An FCCL is a key material for flexible printed circuit boards (FPCBs) that are used in smart phones, tablet PCs, etc.

The global FCCL market is showing explosive growth these days at an average rate of 18% a year. The market is expected to reach a trillion won in size by 2015.

SK Innovation is planning to expand the production facilities at an investment of approximately 90 billion won before putting them into commercial operation in 2014. Once the project is completed, the company's FCCL production capacity amounts to 9,000,000m2 per year. At present, its first production lines in the complex are manufacturing 3,500,000m2 of FCCLs each year.

The company kicked off the commercial production of FCCLs in August 2011 and took just six months from then to supply its products to Mctron Electronics, the world's largest circuit board manufacturer. Last year, it exceeded its sales and production volume targets alike.

SK Innovation is planning to further enhance its overseas business through the production line extension while working on products of more various uses, not limited to mobile. At the same time, it is aiming to carry out more production line extension projects down the road to become the largest FCCL manufacturer in the world in or before 2020.

In the meantime, the company is striving to grow into a powerhouse in the electronic information materials sector. It developed its own lithium ion battery separator (LiBS) for the third time in the world back in 2004 and has set up a total of seven production lines during the following eight years, surpassing the 600 billion won mark in terms of cumulative sales and accounting for 19% of the global market. It is enjoying the largest and third-largest market share in the domestic and global markets, respectively. A LiBS is one of the most important parts for a lithium ion secondary battery. SK Innovation is planning to build the eighth and ninth production lines next year to solidify its market leadership, too.

In addition, it is about to obtain product certification from a local LCD manufacturer in the triacetate cellulose (TAC) film market, which is dominated by Japanese companies such as Fuji Film and Konica. "Our commercial-scale production of TAC films, which is scheduled to start within this year, will contribute greatly to Korea's trade deficit vis-à-vis Japan and the competitiveness of its display industry," said the company source.

KOREA MICE EXPO 2013

Emerging as a Global MICE Event

The KOREA MICE EXPO 2013 (KME 2013), an expo specialized for the MICE industry is to be held from June 25 to 27 at COEX in Seoul, Korea. In the 14th year, the KOREA MICE EXPO 2013 is hosted by the Korea Tourism Organization and supported by the Ministry of Culture, Sports and Tourism, Republic of Korea. The expo this year presents a remarkable growth in terms of number of hosted buyers and business consultation appointments. Compared to last year, the number of buyers increased 52% to 160 and the business consultation appointments surged 71%. It shows that the expo has leaped to emerge as a global MICE event.

KOREA MICE EXPO 2013 offers a variety of events and programs for exhibitors, buyers and visitors, including MICE exhibitions and business consultations, MICE Destination presentations for major Korean MICE cities, IMEX-MPI-MCI Future Leaders Forum, ICCA DATA Workshop and Pre & Post Tour for international buyers to discover Seoul and the regional MICE cities in Korea.

In order to expand the buyer invitation both internationally and domestically, KOREA MICE EXPO 2013 opened a registration program to allow buyers to make anytime at their convenience through the easy-to-use website. The effort led to greater participation by international buyers though this year's expo has been selective with buyer invitations. By utilizing domestic and international MICE network, KME 2013 has invited 160 of proven high quality top international buyers. In addition, KME 2013 adopted a smartphone app for business meetings, which allows visitors to have better accessibility to PSA (Pre-Scheduled Appointment) schedules and other relevant information of the expo. The use of IT at the KME 2013 also leads the expo to eco-friendliness to become a Green MICE event.

Director of the Incentive & Exhibition Team at the Korea Tourism Organization, Bong-sik Seo said, "In order to introduce the attractive qualities of Korean MICE cities, we have planned a fam tour with 4 courses, which include the site inspection of regional convention and MICE facilities, hotels and tourist attractions. This way, we can provide supports for regional MICE cities to promote their MICE activities and increase the awareness of Korea as a global MICE destination." BK

Opening Ceremony of Korea MICE EXPO Last Year

KOMPSAT-5

Korea's First Multi-purpose Satellite to Be Launched in August


Multi-purpose Satellite

The Arirang-5, Korea's first multi-purpose satellite equipped with a synthetic aperture radar (SAR) for earth observation, is launched in August this year, two years behind schedule for the demand from the Russian military. Under the circumstances, experts are urging the Korean government to diversify its international cooperation channels for satellite development.

The Ministry of Science, ICT and Future Planning announced on May 23 that it launches the KOMPSAT-5 on August 22 in the Jasny Launch Station in Russia, no less than two years after the development at an investment of as much as 238.1 billion won.

The development project was completed in April 2011. Although the Korean government planned to launch the satellite in the same year, it was postponed until the latter half of the following year for reasons on the part of Russia before another delay until May this year. However, the promise was not kept and the X-day has been fixed on August 22 at last.

The Korea Aerospace Research Institute (KARI), which is in charge of the launch, signed a contract with the Russian agent of ISC Kosmotras by paying approximately 19 billion won. The repeated delays are because the Russian military authorities, which control the launch vehicle and station, did not give the approval while demanding extra payment to the company. "As far as I know, the military demanded 60% to 70% more of the contract cost," said KARI president Kim Seung-jo. He continued, "The Russian government granted its permission only after the additional payment was made."

In short, the Armed Forces of Russia acted as an unexpected variable in the bilateral cooperation between Korea and Russia for the satellite launch service to cause the trouble. For Korea to launch its satellite by means of Russia's launch vehicle, approvals are required from the military authorities, the Russia Aero-space Agency (RASA), etc. "The Russian President told earlier this year to expedite the postponed launch of satellites and the RASA positively reviewed the three projects including the KOMPSAT-5," president Kim went on, adding, "However, the military intervened again to demand the extra payment."

Industry experts are pointing out that the Korean government needs to come up with more stable plans for satellite launching by diversifying its cooperation channels in the current situation in which it is not capable of putting its satellite into orbit on its own. "The collaboration with Russia has the possibility of some instability," he continued, "Therefore, we will have to consider holding hands with other countries, such as Ukraine, which are in possession of launch vehicles."

The Arirang-5 uses its SAR to send microwaves onto the ground surface and create images by measuring the time lag of the reflected signals. Also, it is capable of observing the earth in cloudy weather conditions and at night. It can obtain much better satellite images as a supplement for the KOMPSAT-2 and KOMPSAT-3. The satellite is going to be utilized for disaster prevention, the monitoring of the state of natural resources utilization, etc.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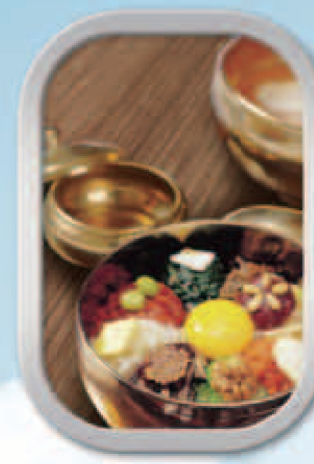

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